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Full contents
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Past issues/regional covers
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GLOBAL AGENDA

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

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Print Edition April 13th 2002

From here to Palestine
By accident, Ariel Sharon may have created an opportunity for peace ... More on this week's lead article

Previous print editions

Apr 6th 2002
Mar 30th 2002
Mar 23rd 2002
Mar 16th 2002
Mar 9th 2002

More print editions and covers »

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The world this week

Politics this week
Business this week

Leaders

Israel and Palestine
From here to Palestine

A world criminal court
Give it a welcome

Sri Lanka
The Tiger comes out of his lair

Slavery
The guilt of a nation

Pay-television
Lessons from Kirch

Financing health care
British exceptionalism

Letters

On the Middle East, George Bush, luxury goods, the priesthood, margarine

Special Report

Israel and Palestine
After the war is over

United States

America and the Middle East
Slouching towards Bethlehem

The Los Angeles Police Department
No parking

Slavery and the law
Time and punishment

Right-wing readers in New York
Do they exist?

The appeal of guns
Pinkos and pistols

Lexington
Don't drop the dead donkey

The Americas

Argentina's corruption
Enter the scapegoat

Venezuela's crisis
Towards the endgame

Canada's census
Please come, we need you

Trinidad
We not in that

Ecuador's economy
In hock

Asia

Indonesia
Trading on her father's image

East Timor
Getting ready for statehood

Sri Lanka
Meet the new democratic Tigers

Taiwan and China
A wafer-thin argument

North Korea
Talk away

Japan
In search of an opposition

A survey of television

Power in your hand

Entertain me

Big brother is you, watching

To infinity and beyond

All in the family

Think local

Up the tube

Acknowledgments

Offer to readers

Business

Kirch
The beginning of the end

Technology
Big Blue's clues

Cars in China
Leave it to the locals

America's blue-collar temps
In a ditch

The Internet
Listing again

Venture capital in America
Sharing the pain

European buyouts
Growing pains

Face value
Generic gadfly

Finance & Economics

Oil prices
Flaring up?

Wall Street
What glitters ain't gold

Auditors
Resisting change

Electronic trading
Death of a platform

East Asia's economies
Ready to pounce

Hedge funds
Seeking to be respectable

Economics focus
A price for pain?

Science & Technology

China in space
Taikonauts are go

Astronomy
Comet comment

Battlefield repairs
Mobile warfare

Ancient geography
A great leap backwards

Middle East & Africa

The Israeli-Palestinian war
No end to the desolation

Israeli politics
Lurching ever rightwards

Arab responses to Israel's assault
Powell's road to Jerusalem

Iran's response to Israel's assault
The spectre of being next in line

Madagascar's presidents
Two into one won't go

Europe

Europe and the Middle East
Allies at odds—all round

One Czech and the Arabs
Go, George, go

Hungary's general election
Orban loses—with his own help

Liechtenstein
Sorry, savers, we've gone legit

France's presidential election
Chirac revived

Turkey and Greece
Let's be friends

Charlemagne
Catalonia's Jordi Pujol

Britain

The NHS
Condition still critical

BT
The Verwaayen ahead

Royalty
Their finest hour

Trade unions
Up yours, minister

Railways
Regulator riled

Seasonal labour
Slim pickings

Bagehot
Tony's act of faith

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Books & Arts

20th-century writers
The riddle of Turin

The conquest of Berlin
Burdens of victory

French elections
Either-or, neither-nor

Poets' lives
Inverse mappings

Oprah's book club
The final chapter

Princely collecting
Bagging canvases

Obituary

John Pierce

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Portfolio poll

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Information-technology spending

Emerging-Market Indicators

Overview

Ageing population

Economy

Financial markets

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Politics this week

Apr 11th 2002
From The Economist print edition

Middle-East mire

EPA

Ariel Sharon responded to George Bush's call to withdraw by pulling troops out of various **West Bank** towns and villages but invading others. In Nablus and Jenin at least 200 Palestinians have been killed. A Hamas suicide bomber killed eight people in a bus near Haifa. An extreme right winger, Effi Eitam, joined Mr Sharon's government of national unity as new head of the National Religious Party.

See article: The Israeli-Palestinian war

Arabs, everywhere, demonstrated against Israel's assault. Colin Powell, America's secretary of state, making his slow way to Israel by way of Morocco, Egypt and Jordan, was told roundly by his hosts that he should hurry up and stop Israel. Morocco's King Mohammed, who welcomed Mr Powell wearing a badge announcing “We are all Palestinians”, postponed his wedding celebrations.

See article: Arab reactions to Israel's assault

On April 11th, a treaty establishing a **world criminal court** was expected to cross the threshold of 60 ratifications, enough to make the court a reality next year. America, at odds with its allies, has opposed the plan.

See article: The coming world criminal court

The **Congolese** government, which is holding talks with rebel leaders at Sun City, a South African resort, proposed that President Joseph Kabila should share power with a prime minister chosen from the rebel groups. One of the main rebel factions said yes; the other said no.

In **Congo-Brazzaville** thousands of people fled the capital after an army operation to seize illegal weapons caused panic. The operation followed several days of clashes between government and rebel fighters.

Britain's Ministry of Defence has agreed to negotiate with the lawyers for 220 **Kenyan tribespeople** who claim that the British army's carelessness in cleaning up after recent military exercises in the country has cost them their hands, feet or legs.

In **Madagascar** supporters of the ousted president, Didier Ratsiraka, blew up bridges and blockaded the capital, Antananarivo, which is held by his rival, Marc Ravalomanana. After weeks of peaceful protests following a controversial election in December, over 25 people have now been killed.

See article: Madagascar's gentle revolution turns sour

Tigers tamed?

AP

Velupillai Prabhakaran, the leader of the **Tamil Tigers**, speaking in public for the first time in 12 years, said he sincerely supported a Norwegian plan to end Sri Lanka's civil war in which more than 60,000 people have died. But he told reporters that “the conditions have not arisen” to abandon the Tigers' demand for a separate state for Tamils.

See article: Sri Lanka's Tamil Tigers tamed?

China carried out 2,468 judicial executions in 2001, according to Amnesty International, about three-quarters of the world's total.

Koichi Kato, an ally of **Japan's** prime minister Junichiro Koizumi, resigned from parliament over allegations of misuse of campaign money. According to polls, public support for Mr Koizumi has fallen to below 50% from 90% when he took office last year.

See article: Japan's feeble opposition

Troops of **Afghanistan's** interim government shot dead eight farmers among a group of about 2,000 protesting against moves to stop heroin-producing poppy cultivation, which has restarted since the Taliban were defeated. In a separate incident the defence minister, Mohammed Fahim, survived a bomb blast as he arrived in Jalalabad to discuss poppy eradication.

South Korea's 77-year-old president, **Kim Dae Jung**, entered hospital for a “two or three-day rest” after doctors said he had been overworking.

Runners

Opinion polls showed Jacques Chirac well ahead of Lionel Jospin in the first round of **France's** presidential election on April 21st, and just ahead in the second.

See article: France's close presidential election

The opposition Socialists won a small lead in the first round of **Hungary's** parliamentary election. They look likely to retain it and install Peter Medgyessy as prime minister in place of Viktor Orban.

See article: Hungary's general election

The **British** buried their 101-year-old Queen Mother, the widow of King George VI, amid unexpectedly widespread shows of public respect and predictable media mawkishness and hype.

See article: After the funeral

Amid much public debate, **Germany's** Constitutional Court overturned a ruling by a lower court which implied that, in today's circumstances, conscription for military service infringed the constitution.

Visiting Germany, Vladimir Putin won German backing for **Russia's** claim not just to be consulted by NATO but to take part in certain decisions.

Send in the clones

President George Bush urged the Senate to ban **cloning of human cells** for any purpose as 40 Nobel prize-winning scientists announced their support of cloning for research purposes. Meanwhile, Severino Antinori, a controversial Italian gynaecologist, apparently told a conference in the United Arab Emirates that a woman in his care was pregnant with a cloned embryo.

Lynne Stewart, the American lawyer for Sheik Omar Abdel Rahman, the alleged mastermind of the 1993 **bombing** of the World Trade Centre, was charged with passing messages to other terrorists. Laws passed since the September 11th attacks overrule attorney-client privilege.

Ron Kirk, a former mayor of Dallas, became Texas's first **black nominee** for the Senate. He completes a Democratic team that includes a Latino millionaire oilman as candidate for governor.

AP

Russia's internal intelligence agency accused the **CIA** of trying to steal classified

information about new weaponry and its defence links with other ex-Soviet states.

Oil strike

As **Venezuela** moved towards an indefinite general strike called by the unions and dissident managers of the state oil company, Petroleos de Venezuela, and aimed at dislodging President Hugo Chavez, the oil industry faced increasing disruption.

See article: Venezuela's political crisis

The **Mexican Senate** refused to let President Vicente Fox travel abroad, saying he needed to concentrate on problems at home.

After the arrest of Domingo Cavallo, **Argentina's** former economy minister, in connection with illegal arms-smuggling, investigations were re-opened into the arms-smuggling roles of ex-President Carlos Menem and several of his officials.

See article: Politics and corruption in Argentina

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Business this week

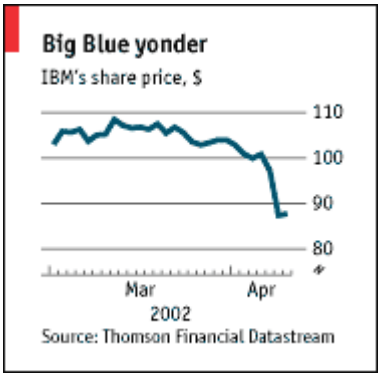
Apr 11th 2002
From The Economist print edition

Down the abyss

After weeks of inching towards insolvency and staring into the abyss, Kirch Group folded. **KirchMedia**, the rights and terrestrial-TV business at the centre of Kirch, filed for bankruptcy; its German creditor banks hope to rescue the company. KirchPayTV looks set for bankruptcy too, becoming a possible target for Rupert Murdoch's BSkyB satellite-TV business.

See article: The crisis at Kirch

IBM shocked investors by issuing its first profits warning since 1991; the computer giant blamed dwindling IT spending. IBM said that first-quarter pre-tax profit would be around $1.7 billion, compared with $2.5 billion a year ago. The company's shares tumbled on the news.



See article: A grim outlook for technology spending

Pacific Century CyberWorks, a Hong Kong telecoms company whose bubble has burst since the tech heyday, appointed Michael Butcher as chief operating officer and putative successor to Richard Li, PCCW's chief executive. Mr Butcher comes from Lucent Technologies, a telecoms-equipment maker that has suffered a similar return to earth.

BT unveiled its latest plans to reduce a prodigious pile of debt. The British telecoms company will sell assets (notably a 26% stake in France's Cegetel) and sack staff. It also promised to improve the woeful access to broadband connections for British customers.

See article: BT gets better

Vodafone's shares suffered a precipitous plunge after NTT DoCoMo, Japan's biggest mobile-phone operator, revealed slowing subscriber growth; the British company's Japanese subsidiary, J-Phone, could suffer similarly. The company also faces a write-off of some £25 billion ($36 billion) in goodwill after its takeover of Germany's Mannesmann in 2000.

Levi Strauss is tightening its belt by closing six factories in America with the loss of 3,300 jobs, some 20% of its workforce. Production will be outsourced to cheaper foreign contractors. Despite Levi's claim to symbolise “frontier independence, democratic idealism, social change and fun”, it has lost out as more fashionable firms have pocketed bigger shares of the lucrative youth market.

Bad value

Recriminations from the dotcom boom hit **Merrill Lynch**. New York state's attorney-general accused the stockbroker of a conflict of interest in recommending shares that it slighted in private in order to pick up investment-banking business. The attorney-general is said to have widened his investigation to other big investment banks.

See article: Wall Street research

A Spanish judge took over a Bank of Spain investigation into secret offshore accounts at **Banco Bilbao Vizcaya Argentaria**. The accounts were opened between 1987 and 1999, before Banco Bilbao Vizcaya's

merger with Argentaria. Nobody seems to have any idea what the off-balance-sheet cash (reportedly over $200m) was for.

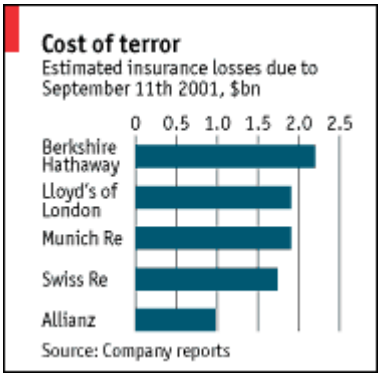
Russia has agreed to pay *euro*500m ($440m) to Germany in settlement of **Soviet-era debts**. The deal brings to an end a ten-year dispute over the debts, most of which were originally owed to the old East Germany.

America's Securities and Exchange Commission, investigating alleged accounting fraud at **Xerox**, a heavily indebted photocopier company, spread its net to probe executives at KPMG, Xerox's auditor until last year. Recently, Xerox settled with the SEC over charges that it had irregularly accounted for leased products, by restating its accounts and paying a $10m fine.

Andersen's chances of reaching a settlement with America's Justice Department over charges arising from its auditing of Enron suffered a blow after David Duncan, who led the audit, pleaded guilty to obstructing justice. He was fired by Andersen after it learned of his role as shredder-in-chief of Enron-related documents. Meanwhile, the accounting firm said that it would chop 25% of its American staff (around 7,000 employees) in the wake of a mass departure of clients.

See article: Auditors are resisting post-Enron change

Lloyd's, the London insurance market, issued its first annual results instead of its traditional three-yearly accounts. Bad news abounded: a pro-forma loss of £3.1 billion ($4.5 billion) in 2001, much of which is attributable to the World Trade Centre attack. The same problem beset **Swiss Re**, the world's second-largest reinsurer. Its September 11th payouts contributed to a loss of SFr165m ($97.7m), the first in the company's 130-year history.



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Israel and Palestine

From here to Palestine

Apr 11th 2002
From The Economist print edition

By accident, Ariel Sharon may have created an opportunity for peace

Get article background

Getty

ARIEL SHARON invaded the West Bank in order, he said, to uproot terrorism and isolate Yasser Arafat. In the casbah of Nablus, the Jenin refugee camp and other towns and villages, Israeli soldiers appear to have killed several hundred armed Palestinians, and by most accounts many unarmed ones too. But it is Mr Sharon, not Mr Arafat, whom this onslaught has isolated. By defying the demands to withdraw issued by the United Nations, the United States and almost everyone else, Mr Sharon has enraged Israel's enemies, alienated its friends, and blackened its name in the court of world opinion.

To judge by his rising popularity at home, Israelis consider their international reputation a price worth paying for better odds of not being blown up on the bus to work. But the personal safety Mr Sharon promises them is illusory. The daily suicide attacks that provoked Israel's invasion stopped for nine days after the army went in, only to resume on the tenth. If Mr Arafat's fief were a state, it might be deterred from future violence by Israel's overwhelming force. But it is now even less of a state than it was before, less able than before to restrain the suicide bombers even if Mr Arafat wanted to. And in the meantime it is not only Israel's good name that Mr Sharon is destroying. He is also destroying something more precious: the belief of Israelis and Palestinians alike in the possibility of a just compromise between the claims of the two peoples.

Trapped in their endless blame game, each side accuses the other of killing hope. Both are right, in that both have failed. Mr Arafat has failed to honour his promise under the Oslo accords to prevent the territories he controls from being used as a springboard for guerrilla and terrorist attacks on Israel. But Mr Sharon has failed to offer Palestinians any believable prospect that they might realise their aims by non-violent means.

Greater Israel, again

If this were just a case of refusing to bend under fire, Mr Sharon's failure might be forgivable; most Israelis believe that surviving depends on showing no weakness. The trouble with Mr Sharon is that he seems not to accept the principle upon which any imaginable peace must rest, namely Israel's evacuation of most of the land it conquered in 1967, so that a viable Palestinian state can arise in the West Bank and Gaza. Right now, he weeps crocodile tears over the collapse of the Oslo process he never supported. But under cover of fighting terrorism, he shows every sign of wanting to resurrect the vision of a “Greater Israel”, for ever in charge of the West Bank, which inspired Likud governments in the 1970s and 1980s.

In the Knesset this week, Mr Sharon promised to withdraw his army from the newly occupied territories, but only to “buffer zones”; to negotiate with a “responsible” Palestinian leadership, but not with Mr Arafat; and to seek a “long-term interim agreement”, not a final peace. He also expanded his government to take in the National Religious Party, led now by an ultra-nationalist who opposes any Palestinian sovereignty west of the River Jordan and predicts the eventual migration of the Palestinians out of the country.

If this is the fate that awaits the Palestinians after a ceasefire, Colin Powell, America's secretary of state, will have been wasting his time trying to arrange one. For such a ceasefire has absolutely no prospect of lasting. Having endured 35 years of long-term interim occupation, the Palestinians are in no mood to submit again to Israel's iron fist. As for Mr Arafat, it is no use Mr Sharon calling Mr Powell's decision to meet the Palestinian leader a “tragic mistake”. Like him or loathe him, whether he has condoned terrorism or not, he is the only leader whose legitimacy the Palestinians and therefore the rest of the world are prepared to recognise. If there is to be any sort of negotiated peace, it is going to need Mr Arafat's imprimatur.

Peace now?

A negotiated peace looks more remote than ever. So the priority of George Bush, wary of tangling himself as Bill Clinton did in the arcane grievances of Arabs and Israelis, is to put out the fire before it spreads and complicates his plans for Iraq. But what a pity if this were the limit of his ambition. If the present mayhem shows anything, it is that the fire cannot be doused without also reviving hope. Israelis need to be able to hope that the terror will end without their soldiers having to stay in the West Bank to fight it. And Palestinians need to be able to hope that if the terror ends, the occupation will end too.

If America is serious about restoring hope, it cannot rely on its existing three-step plan for ending the *intifada*: a ceasefire, followed by resumed security co-operation, followed by confidence-building measures such as a freeze on Jewish settlements. For a paradoxical consequence of Mr Sharon's war is that this progression of modest steps now looks even less realistic than an immediate “leap” to a final peace. The Palestinian policemen fighting today alongside Palestinian gunmen cannot be expected to turn their brethren over to Israel tomorrow. Israel cannot be expected to trust them to. And even if some miracle eventually got them to the negotiating table, the gap between Messrs Sharon and Arafat looks unbridgeable.

This is why it is now time to risk that leap to a final settlement. This can no longer be based, as Oslo was, on the two sides making their own agreements and learning over time to trust one another; the gradualism of Oslo built hate, not confidence. So outsiders will have to do the work. For example, since Mr Arafat cannot or will not clamp down on terrorism, why not send an international force—armed, not just “monitors”—to take charge of security in the areas under his control? Since the parties cannot negotiate secure borders, as Resolution 242 of 1967 asked them to, why not have world powers—the “quartet”, say, of America, the UN, the European Union and Russia—map out such borders for them, and set a deadline for Palestinian independence? None of this would help a jot unless those powers, and especially the superpower, put sustained pressure on both sides to comply. But how disgraceful it would be if the answer to those “why nots?” was that the world at large, while calling piously for both sides to see reason, simply lacked the will to save them from each other.

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A world criminal court

Give it a welcome

Apr 11th 2002
From The Economist print edition

America should drop its hostility, and its allies should allay its fears

Get article background

THE doubts are understandable, but the cause is worthy. As *The Economist* went to press this week, supporters of the long-planned international criminal court were preparing to celebrate the 60th ratification of the treaty drawn up to establish it. With that threshold crossed, the court's creation will at last be assured, years sooner than anyone thought possible. Fulfilling a promise made after the Nuremberg trials more than 50 years ago, the court will provide a permanent forum for trying the world's most despicable criminals—mass murderers, war criminals and plotters of genocide or ethnic cleansing—who have often committed their deeds knowing they would never have to answer for them. But this great blow against impunity comes at a price. The court's creation has opened a rift between the United States and its allies just as the Bush administration seeks co-operation in its war against terrorism and tries to rally support for action against Iraq.

America has opposed the court ever since the idea was first approved by 120 other countries in 1998 at a United Nations treaty conference in Rome. America's opposition has hardened under George Bush. Even Bill Clinton, who signed the treaty just before he left office, made it clear he had no intention of ratifying it. He merely wanted, or so he said, to leave Mr Bush the option of keeping America engaged in planning how the court would function. Instead, the Bush administration is apparently choosing to make no attempt to shape the court and its work.

Push from within

This attitude is unwise and unnecessary. Even if the court's design is flawed, as America claims, such flaws can be remedied better through more diplomacy and negotiation than through confrontation. Britain and France, fellow permanent members of the UN Security Council, as well as nearly all America's other NATO partners, believe the court can be made into a valuable institution. And despite American opposition, they have been willing to push ahead with it much faster than anyone expected, even in the aftermath of September 11th, when their support for America has been at its height. In truth, and contrary to the fears of the administration, the court is not aimed at curbing the legitimate use of force, by America or anyone else.

Americans opposing the court say that it will include judges and prosecutors from different countries, trained in different systems of law, espousing different notions of justice, and that some will not come from democracies. An even bigger worry is that the court might be used to restrain the military operations of the world's pre-eminent power, and perhaps to bring “political” prosecutions against its leaders.

America's allies have not been indifferent to its concerns. Indeed, they have done their utmost to meet them. American lawyers and diplomats have played a central role in writing many of the court's rules and, crucially, the definitions of the crimes it will cover. The court will be able to take up a case only if national courts are unwilling or unable to do so themselves. Its prosecutor will not be able to pursue a case without the agreement of a three-judge panel. The Security Council can suspend any case it believes is misconceived. Other checks and balances make it extremely unlikely that the court will unleash a rogue prosecutor on the world, bringing indictments against American leaders for justifiable actions such as intervening in Afghanistan. America's NATO allies, themselves participants in the Afghan

war and with peacekeeping troops in harm's way elsewhere, have as much interest as America does in avoiding that outcome.

And yet, despite these reassurances, America still has doubts. No one can deny that the court is something of an experiment. America's proper response to this uncertainty, though, ought to be not hostility but a wait-and-see neutrality. If there is a risk, it is a small one. Like the Hague tribunal—a temporary affair set up by the UN with responsibility for Rwanda and ex-Yugoslavia—the new court will have no army or police force of its own, but will rely on national governments, and mostly on the great powers, for much of its evidence and the arrest of suspects. If it acts recklessly, or without widespread international support, it will be ignored.

A successful court, on the other hand, would embody values of international law and the protection of civilians championed by successive American governments since the second world war. America has been the chief instigator and biggest financial backer of the Hague tribunals. In fact, it was America's success in winning support for the creation of those tribunals that persuaded its allies that a permanent criminal court was feasible. Slobodan Milosevic, Serbia's former dictator, is now on trial in The Hague only because America first provided the evidence needed to indict him, and then threatened to withhold aid to Serbia if it did not surrender him.

The task now facing America's allies is to overlook the Bush administration's hostility to the court, and to dispel its fears by ensuring that, when the court is established next year, it actually operates as the responsible and effective institution they have promised. The court's backers should do something more. They should demonstrate to Mr Bush that the court could yet be a useful weapon in his campaign to bring about a safer and more civilised world by announcing to Saddam Hussein that, if he commits further atrocities, against his own people or others, they will seek to indict him.

An indictment to remember

Under the terms of the court's treaty, it has no jurisdiction over crimes committed before July 1st, when the treaty formally goes into effect. So the court cannot be used to try Mr Hussein for his past crimes. But a warning from America's allies that he could stand trial for any future atrocities would show Mr Bush that they support his aim of restraining Mr Hussein, even if they still hesitate at the idea of going to war with him. Mr Hussein would scoff at such a warning. Mr Milosevic also once laughed at the idea that he would ever have to answer for his actions before a court of law.

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Sri Lanka

The Tiger comes out of his lair

Apr 11th 2002
From The Economist print edition

But on the main issue of independence for the Tamils, it is not yet certain how much has changed

Reuters

Get article background

FOR the first time in more than a decade, the commander of the Liberation Tigers of Tamil Eelam, Velupillai Prabhakaran, emerged from the jungle this week to talk to the outside world. He pledged his commitment to peace, and promised that the days of suicide bombings are over. He even spoke of his Tamil Tigers laying down their arms, and went out of his way to praise Sri Lanka's prime minister, which is a first. This is all part of an encouraging pattern that started in February with the announcement of a ceasefire in an intractable war that has killed more than 60,000 people in the past 19 years.

The ceasefire is holding, more or less. And it does now look as though peace talks between the Tigers and the government will start early next month. Sri Lanka has domestic flights again (they were suspended for years for fear of tigerish hijackers), and the main road north towards Jaffna from Colombo has re-opened. All of these solid achievements, though, will quickly break down if the peace talks do. And whether or not that happens will mainly revolve around that word “eelam”, which means “homeland” but is silent about just what a homeland should be.

In the past, Mr Prabhakaran has always taken the maximalist route, insisting that an eelam should be a fully independent state for Sri Lanka's Tamils to live in. There are good arguments for one. The Tamils have indeed suffered much wrong at the hands of the Sinhalese majority since independence, and the north and east of the island, where the eelam would be, have very few Sinhalese inhabitants these days. Why should not the area become independent, like Eritrea or East Timor?

There are also, however, strong arguments against: the putative new country would legitimate a vicious campaign of ethnic cleansing in the “Tamil” areas by the Tigers, backed up by atrocious terrorism outside it. A homeland for Tamils in that part of the island has no strong basis in history. Most of all however, it is simply unrealistic. No Sri Lankan leader, even if he or she wanted to, could win approval for giving away so much territory, a constitutional change that would require a two-thirds vote of parliament.

Perhaps, though, an eelam can be something less than an independent state. Still nominally on offer is a new constitution which would have given a high degree of autonomy to the Tamil areas, while having them remain within Sri Lanka. The offer needs to be improved if it is likely to attract the support of even the moderate Tamil groups, but it is at least possible that such proposals could be approved by the Sri Lankan parliament with the necessary majority. Both main parties, that led by the prime minister, Ranil Wickremesinghe, and that of the president, Chandrika Kumarantunga, agree in principle on autonomy for the north and east. The onus is on the president to move further than she has so far.

That leaves the Tigers. Mr Prabhakaran's statements this week were not completely discouraging (see article). He continued to insist on statehood for the Tamil Eelam, dashing any hope of a quick peace when negotiators meet next month. But optimists say he would hardly have ceded so large a principle so early in the process, and for so little. He was, anyway, intriguingly ambiguous, saying that the conditions for abandoning the principle had “not yet” arisen, and that the policy could be re-examined. It is now up to both government and rebel leader to think creatively. For the first time in many years it seems, at least, that there is a measure of goodwill.

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Slavery

The guilt of a nation

Apr 11th 2002
From The Economist print edition

Slavery was evil, but that does not justify compensating the descendants of its victims

Get article background

CAN a terrible historical injustice ever be recompensed? The answer should be yes. But any attempt to redress past wrongs has to pass certain commonsense tests to do with the length of time that has passed since the outrage and the ease with which victims and victimisers can be identified. Those criteria can never be objective: atonement is not statistically measurable. But the struggle being taken up on behalf of the victims of slavery surely fails any such test.

Lawyers claiming to represent some 30m descendants of American slaves have launched a series of lawsuits against companies that profited from slavery before it was abolished in 1863. The legal side of their case is complicated, not to say tendentious (see article). But the plaintiffs seem to hope that political pressure will make up the deficit. There is talk of consumer boycotts; the Rev Jesse Jackson, obviously, is on board. The plan is to force companies such as Aetna (which 150 years ago insured the lives of slaves for their owners) together with the federal government (which, after all, sanctioned the practice) to set up a compensation fund for the victims and their lawyers. Given the companies' keenness to avoid embarrassment, the guilt most Americans feel about slavery and the relative poverty of many black Americans, the chances are that the plaintiffs will get something.

Many people will wonder what is wrong with that. One recent precedent is the settlement made between German companies and the 10m slave-labourers whom they “employed” during the Nazi era. The German government had paid reparations after the second world war to the new state of Israel. But after a campaign in the 1990s, the German companies and their government set up a new $5.2 billion fund to pay the 1.5m living victims and the descendants of the rest.

Yet there are reasons to argue both that the German and the slavery cases are profoundly different, and that the slavery case is not really in the interests of black Americans. Begin with the commonsense tests about identifying the victims and the perpetrators. Even with the Holocaust, this grisly process was difficult: many of the victims had died, and it was hard to identify how much money German firms had made from uncompensated slave labour—or whether today's shareholders had benefited from it (that is one reason why the German companies concerned tended to win the court battles). The problems with slavery are far, far greater.

On the corporate side, many of the companies concerned have changed beyond recognition. As for taxpayers, many white Americans have forebears who, far from condoning or profiting from slavery, fought to end it in the civil war. The ancestors of many more arrived in America after slavery had been abolished. As for the victims, should an American with just one slave ancestor be paid the same as somebody with ten such forebears? What about the descendants of black slave-dealers? Then comes the question of whether a modern African-American is really worse off than the descendants of those left behind in Africa; or whether his ancestors suffered more than, say, the indentured Chinese coolies who built the railways. (Lawyers had better ignore this last point.)

These are the sort of fights that racist whites, who care not one jot about black rights, are spoiling to have. They also illustrate why most countries, including the United States, have statutes of limitations on crimes, no matter how monstrous. Pursuing children for the crimes of their parents is a profoundly illiberal idea. “Inheritance of the guilt of the dead” the European Court of Human Rights has ruled, “is not

compatible with the standards of criminal justice in a society governed by the rule of law". This newspaper once proposed that there should be a moratorium on state apologies issued for crimes committed beyond living memory (roughly a century). The same, broadly speaking, should apply to reparations.

As for treating slavery reparations as a way to help black Americans, this seems even further out of date. In the 1960s, the American government rightly promoted programmes such as "affirmative action"; but that was largely to make up for the country's despicable treatment of blacks after slavery was abolished. These days, black Americans are doing much better (albeit less well than whites). And racially-based programmes seem odd in a melting pot like America. Government help should be based on income and family circumstances, not colour—let alone on injustices, however terrible, that were committed 150 years ago.

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Pay-television

Lessons from Kirch

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Its fall does not prove that pay-television in Europe is doomed

THE demise of Germany's KirchMedia had been so widely trailed that it is easy to forget how unthinkable it would once have seemed. The collapse of the company, which went into insolvency on April 8th, fells one of the godfathers of European media. Leo Kirch, who bought his first film rights, to Fellini's “La Strada”, as far back as 1956, stood down this week from the debt-laden group he founded, leaving administrators to unscramble the mess (see article). Within Germany, the fall of Kirch will be a test of its politicians' willingness to allow the market, and—even more troubling to them—foreigners, to determine corporate survival. Beyond Germany's borders, however, some broader lessons are being drawn about the nature of television in Europe.

One is that Kirch's failure marks a turning-point in the evolution of pay-television in Europe. Although KirchPayTV, which owns Premiere, Germany's only national pay-TV operation, had not by mid-week been declared insolvent, this is surely only a matter of time. Premiere's failure to get enough Germans to subscribe to see the films and sport that KirchMedia paid so much to acquire turned it into an expensive drain at the centre of the Kirch empire.

Premiere's tumble comes at a time when other European pay-TV operators are in trouble too. ITV Digital, a British pay-TV business, was put into administration in late March. NTL, a European cable company that is Britain's second-biggest pay-TV operator, is struggling to restructure its massive debts. There is a sense in the industry that pay-TV in Europe, which arrived later than in America, has reached some sort of natural limit. Strictly defined, only about one-fifth of Europeans subscribe to pay-TV, compared with over four-fifths of Americans. Europeans, goes one popular theory, are just not as ready to pay to bring choice to their television screens.

Survivor

It is tempting to argue that Premiere is a special case. Germans, many of whom pay a small monthly fee to get free television channels piped into their homes along cable lines, have been reluctant to sign up for pay-TV because they cannot see the point. Free television in Germany already delivers over 30 channels into the living-room, including Hollywood films and top football matches. This made the task Premiere faced particularly hard—and the price KirchMedia paid for the rights to movies and sport an even greater folly.

There is, however, a disarmingly simple link between Premiere's woes and the troubles at other pay-TV businesses, such as ITV Digital. It is not that Germans, or indeed other Europeans, are intrinsically hostile to pay-TV. Rather, people will pay for television only if there is something worth paying for.

With the luxury of choice on German free TV, Premiere did not supply this. The reward for investing in quality is best seen in Britain. A big reason for the success of BSkyB, the satellite-TV operator controlled by Rupert Murdoch, is that it offers the classy football matches of the English Premiership, which are not aired on free TV channels, and for which stadium tickets are expensive and often impossible to buy. ITV Digital offered coverage only of the three lowlier football divisions; little wonder that ITV Sport drew only the same share of viewing as The Biography Channel. What ITV Digital failed to grasp is that consumers will no more pay to watch mediocre sport than to see mediocre films.

What does this mean for the pay-television operators? First, if consumers will pay only for good content, pay-TV operators need to be far more discerning about what they buy. Programming costs have escalated throughout the industry in recent years (see our survey of television in this week's issue), fed by the boom of the late 1990s. Now, lots of these costs are being written off, even for the rights to top content. The days when TV companies would bid sky-high for second-rate stuff are over—for now at least.

Second, pay-TV needs to be more inventive about content. Most European pay-TV companies have turned to sport and movies to drive sales. But this is not the only way. The success of HBO, an American pay-TV company, is based largely on a steady supply of fresh home-grown drama, such as “Sex and the City”, “The Sopranos” and “Six Feet Under”. There is no reason to think that Europeans will always refuse to pay for TV. But pay-TV operators must be more imaginative, and less profligate, in acquiring the content to supply it.

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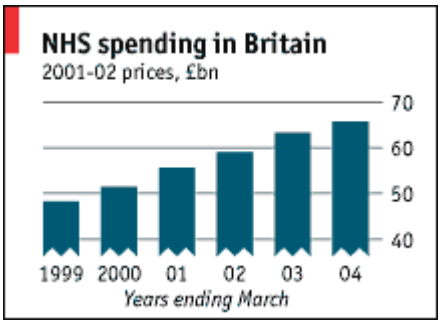
Financing health care

British exceptionalism

Apr 11th 2002
From The Economist print edition

If Tony Blair wants a European-style health service, he should ask how Europeans meet the cost

Get article background



BRITAIN'S National Health Service stands out as an exception among health systems in rich countries. It is exceptionally cheap. It is exceptionally state-dominated, with the government providing both the cash and the care. It is also, according to many indicators, exceptionally poor, with Britons suffering long waits for treatment and scoring badly on a wide range of international comparisons such as infant mortality and the survival rates of patients with cancer.

Public disquiet with the state of the NHS has led Tony Blair's Labour government to drastic action. Money is now being poured into the service in the biggest sustained expansion of resources in 30 years, and the government has committed itself to raising the level of funding to the European average. The NHS's monopoly on provision is being eroded. Private hospitals and clinics are being allowed to offer more services to NHS patients, as they do on a large scale in other European countries.

Yet the government's enthusiasm for the European model is oddly lop-sided. It wants European levels of care; it wants to encourage all sorts of different providers of health services; it wants European levels of funding; but it draws the line at European models of funding. The government refuses to countenance the idea of encouraging the higher levels of private insurance or mandatory contributions into social insurance funds which finance much of the cost of health care elsewhere in Europe. Public financing is sacrosanct: the taxpayer must stump up the money for the NHS. There is nothing wrong, says the government, with the way we pay for the NHS. We just need to pay more for it.

As Gordon Brown, the chancellor of the exchequer, prepares the ground for a budget on April 17th which is expected to raise taxes, the need for more tax money to finance the NHS is central to his argument. Tax funding, he maintains, delivers a more equitable service. Unlike employer-financed health contributions, which cause much grumbling among businessmen in France and Germany in particular, it does not weigh heavily upon companies. Unlike private insurance, tax funding does not allow healthy people to separate themselves from the unhealthy and buy the cheaper policies that insurers offer them, thus making cover for the unhealthy more costly.

Mr Brown is probably right that the NHS provides a more equitable service than one that relies on private funding, but there is an awkward tension between equity and quality. The NHS's poverty means, for instance, that it is backward in adopting new technology. If it is slow to adopt new and better procedures, then everyone, rich and poor, suffers.

More money, and more useful money

One good reason for bringing more private money into the system is that private money usually means more money. As a rule, the more a health service relies on tax, the poorer it is. It is not surprising that much of the extra money available for health care on the European mainland comes from private contributions, not from those countries' exchequers. People are generally keener to spend their money on themselves and their families than they are to pay more tax. What's more, if they buy health insurance, they can choose what they buy and who they buy it from. If they get more health care indirectly through the tax system, they can't.

New sources of money should make the system work better, too. The government is struggling to introduce competition among providers, by encouraging private hospitals to compete with NHS hospitals for custom. But turning the NHS into a discerning buyer is hard work. It involves setting up an internal market; and though an internal market may be better than no market at all, it is never going to work as well as the real thing. Private insurance companies operate in a real market. They have to try to get the best care at the best price, or they go out of business. Bringing more of them into the system should ginger up the performance of the NHS hospitals.

In a recent speech, Gordon Brown expressed confidence that a national consensus could be built “around making the NHS the best insurance policy in the world”. Somehow he forgot to say “compulsory”. The NHS's failure to excel, after 54 years, is not the result of some failure of national will. The problem with having one insurer is that it does not face competition to drive up standards. That is why the debate about financing the NHS will not go away.

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Letters

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From The Economist print edition

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Israel and the Palestinians

SIR – We live in terrible times when an article as grim as your leader must be charged with wishful thinking ("Sharon's war", April 6th). The *intifada* has created a deadlock. You note that Yasser Arafat does not feel he can stop it without some gain to show but there is nothing he can possibly gain that was not freely available before it started. A key fact underlying the current mess is that Israel made the Palestinians its best possible offer at Camp David. So I am puzzled what the "deserving cause" may be that you say underlies the recent terrorism. It cannot be the prospect of a Palestinian state living peacefully with its neighbours: Bill Clinton pressed Mr Arafat hard to accept exactly that and Mr Arafat flatly refused.

Meanwhile, the violence has caused the Israelis to install a hardline nationalist government that wants to dominate rather than make peace with the Palestinians. A unilateral Israeli implementation of the Camp David plan would be the best way forward, but Ariel Sharon's government will never do this and the Israelis are likely to maintain a hardline government as long as Palestinian violence continues.

Peter Garst
Palo Alto, California

SIR – You claim that suicide bombing is terrorism harnessed to a deserving cause: independent statehood for the Palestinians. But as Hamas—which recruits, arms and sends out these suicide bombers—readily admits, its real cause is the total destruction and obliteration of Israel and its replacement by an Islamic state.

Harvey Price
Bangkok

SIR –"An eye for an eye, a tooth for a tooth" is about proportionate response, not blind revenge. By escalating its reaction from the start and imposing an implicit tariff of a dozen Palestinian lives for one Jewish, Israel swelled the ranks of extremists. By killing suspects preventively, it made suicide bombing a plausible option: if they are going to die anyway, why not take a few enemies with them? By killing without due process, blatantly violating international law and ignoring UN resolutions, Israel has become an outlaw state. It will have to do more than send Mr Sharon to The Hague to regain its security and peace.

D. Damianos
Athens

SIR – You say that the terrorist attacks on Israeli civilians have sown terror and destroyed normal life in the Jewish state. You fail to note that Israel's occupation of the West Bank and Gaza has had the same effect on Palestinians for the last 30 years. It is true that Mr Arafat pocketed what Oslo gave him and relaunched a liberation war but successive Israeli administrations have also pocketed Oslo then continued with their own agenda, declining to hand over as much land as agreed and continuing to build settlements in contravention of the agreement not to change the facts on the ground.

Michael Bishop
Cheltenham, Gloucester

McCain not McBush

SIR – No matter how much *The Economist* hopes that George Bush is John McCain he is not, nor will he ever be (Lexington, March 30th). You are correct that there are several areas of agreement between the two. However, Mr McCain is passionate about campaign-finance reform; Mr Bush embraced it grudgingly out of political necessity. Mr McCain genuinely believes in the importance of volunteerism; Mr Bush backed it out of political opportunism. Mr Bush deserves some small credit for coming round to these views but Mr McCain deserves far more for his passion and vision on the topics.

You were right to endorse Mr McCain during the 2000 Republican primaries but ever since you backed Mr Bush in the presidential election it appears you have been forced into a role as an apologist for the many misguided policies of his administration.

Gary Bates
Boulder, Colorado

Lapse of luxury

SIR – In your article on luxury goods you note an estimate by Merrill Lynch and Cap Gemini Ernst & Young that there are more than 26m people in the world with investible assets of over $1m ("Every cloud has a satin lining", March 23rd). In fact, what the chart shows is that individuals with investible assets of $1m or more own over $26 trillion in total. According to the survey there are actually 7.2m of those dollar millionaires.

Sir Mark Weinberg
London

SIR – You say that James Bond's original car was an Aston Martin. In fact, his original car was a 1933 Bentley Mark VI convertible that Ian Fleming introduced in his first Bond novel, "Casino Royale". Bond uses the car to pursue Le Chiffre's men who have kidnapped Vesper Lynd. The Aston Martin does not appear until the movie "Goldfinger". Agent 007 and his Countess Mara silk ties, Beretta (later a Walther PPK), shaken (not stirred) martinis and Bentley came to life in book form.

Leonardo Brizio
Hong Kong

Church weddings

SIR – Some of the results you suggest of allowing priests to marry would be desirable: the priesthood may become more attractive, stemming or reversing the fall in vocations ("Wolves in the flock", March 30th). But would priests be "more attuned to the problems of parishioners"? Domestic problems are only one of many for which the faithful seek help. Celibacy allows time and a commitment denied to a married priest with a family. By the same logic, women (married, of course) should be admitted to the priesthood.

It is true that celibacy is not laid down in doctrine. In the early church, clergy were not required to be celibate; the church has admitted to the priesthood married Anglican ministers; and the eastern churches, with which Rome enjoys communion, allow priests to marry before but not after ordination (though bishops must be celibate). But the church is not a secular body like a business, where problems can be overcome by pragmatic decisions. You also say that allowing marriage would lower the proportion of gay men in the priesthood, implying that they are more likely to abuse the young. There is no evidence for this.

In order to decide about married priests (or a female clergy) the Catholic church has to analyse doctrine and tradition, and not look to its needs at an arbitrary point in time.

Terry Philpot
Limpsfield, Surrey

Spread option

SIR – Perhaps those in Quebec, where yellow margarine is against the law, would like to do what my mother did in Boston almost 60 years ago ("Low-fat spat", March 30th). Then, yellow margarine could also not be sold, again because of the objections by the butter lobby. So all slabs of white margarine were sold with a small capsule of yellow colourant which diligent housewives had to mix with the unattractive white fat, kneading it into a uniform yellow colour before putting it back into some kind of usable block-shaped lump.

Philip Minchom
Oosterhout, Netherlands

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Israel and Palestine

After the war is over

Apr 11th 2002
From The Economist print edition

AP

If political talks can eventually be relaunched, the Taba negotiations would be a good starting-point

Get article background

AS ISRAEL'S army crushes the life out of the Palestinian Authority, a negotiated resolution of the Israeli-Palestinian question seems as far removed from present reality as flights of fancy can reach. Ariel Sharon's determination to avoid being put in a situation in which he might have to negotiate is a powerful motive for the pulverisation of the man and the regime he would have to talk to. Yet the very desperation of the scene is encouraging outsiders to think, once again, of ways to end, rather than merely halt, the conflict. Can the shock of Israel's assault succeed where the reasoned steps of the Oslo peace process failed?

The immediate measures, intractable enough in themselves, are a ceasefire, followed by a confidence-building period. But it is received wisdom that the Palestinians will not end an uprising that is costing them so much pain without the prospect of a reasonable political settlement emerging from the blood and dust.

The route to such a settlement is blocked both by the miseries of the past 19 months and by the hardliners on either side. Israel's far-right coalition and the Palestinian militants in Hamas and Islamic Jihad are the spoilers, not the producers, of a decent agreement. But the majority of Israelis and Palestinians, who want to live their lives without fear or fighting, know that their only lasting escape is through an agreement acceptable to both sides.

Led by Saudi Arabia, all the Arab countries have now said that they will accept Israel once it has withdrawn from its conquests in the 1967 war, a withdrawal first demanded by the UN Security Council 35 years ago. The two-state solution is now even agreed to by Mr Sharon, though his concept of a Palestinian state on less than half the West Bank would be, in Palestinian words, no more than a collection of “statelets in Israel's belly”.

To reach a viable Palestinian state, four hurdles have to be overcome. These remain what they have always been. What should the borders of the new state be? What happens to the Jewish settlements that have been set up in the land the state must occupy? How can Jerusalem be shared as a joint capital? And what is the future of the Palestinian refugees?

These problems were left to the end of the Oslo peace process in the pious hope that, by then, mutual trust might have dispelled their awkwardness. On the contrary: by the time the “final-status” questions

were broached under the auspices of Bill Clinton at Camp David in the summer of 2000, the seven long years of tortuous, stop-and-go negotiation had built up a solid layer of ill-faith, recrimination and anger, and the attempt to push through a complex deal in a rush collapsed, leading swiftly to violence.

Mutual hatred and distrust is even stronger now. Yet new negotiations could build on what was, unofficially, achieved. Though the Camp David summit itself collapsed, it led to far more positive results at the less formal talks that took place at Taba, in Egypt, in January 2001, without American participation.

Even at Camp David, though a deal was never as close as asserted at the time, one might have been reached with more time. Ehud Barak, Israel's Labour prime minister, courageously broke the Israeli ban on even talking about a shared Jerusalem. But his proposals were imprecise and less generous than he claimed. The Palestinians were half-offered a state that would include a few scattered districts in East Jerusalem, and three separate chunks of land in 91% of the West Bank.

Mr Arafat, for his part, had been reluctant to go to Camp David, and was negative throughout. He did agree to the principle of minor changes to the pre-1967 border, so that some West Bank land could be annexed by Israel, in exchange for equivalent land elsewhere. But there was no purposeful negotiation or bargaining.

In December 2000, six months after the collapse of Camp David, the situation was dire. The Palestinian *intifada*, or uprising, was catching hold; Mr Clinton was on his way out, and so, more importantly, was Mr Barak, who was facing an election that opinion polls showed him certain to lose. Mr Clinton then came out with his own set of broad principles.These included a Palestinian state in 94-96% of the West Bank (with a territorial swap for the land annexed), a sharing of East Jerusalem, under which Jewish districts (basically the urban settlements) would be part of Israel and Arab districts would be part of Palestine, and the refugees' right to return—but to Palestine, not to their old homes in Israel.

On the strength of Mr Clinton's proposals, senior Israeli and Palestinian delegations, with Yossi Beilin and Mahmoud Abbas (Abu Mazen) in the teams, met at Taba to try to work out an agreement. They got far closer than Mr Barak and Mr Arafat had at Camp David. The two teams exchanged ideas, presented maps, and bargained thoughtfully.

They were approaching an agreement on borders and settlements, and were even moving towards a fudged deal on the refugees, which might have acknowledged their right of return while ensuring that this right would not be implemented. All this was promising. But the decisions at Taba were taken in the clear knowledge that any deal would be hostage to the next Israeli government and the *intifada*. The parties found it reasonably easy to agree, perhaps because their agreement would bind nobody.

Even so, the meeting of minds at Taba is the starting-point the Palestinians would now like to return to. The Israelis, under Mr Sharon, will have none of this. And, indeed, nothing was officially written down. But fortunately Miguel Moratinos, the European Union's envoy to the Middle East, was an observer at the conference, taking notes. These, after consultations with both the Israeli and the Palestinian sides, were prepared as an EU “non-paper”, so called, and published last February by the Israeli newspaper *Haaretz*. Whatever the Israelis say now, any sincere bid at peace-making must lean heavily on the advances made at Taba, as relayed to the world by Mr Moratinos.

The land in question

Palestinians start from the point that they have already conceded 78% of mandated Palestine to Israel, and should not be asked to concede more of the little that remains. Of the 3.5m Palestinians in the occupied territories, 2.5m live in the West Bank or East Jerusalem and 1m in Gaza. In the West Bank, under the Oslo process, they have full control only over the cities, or 18% of the territory—and since the latest Israeli incursions, this has been lost. In Gaza, they controlled about 75% of the land before the *intifada*, but buffer zones and new roads have now reduced this to nearer 60%. The Israelis have about 200,000 settlers in the West Bank, and roughly the same number (though they do not call them settlers) in East Jerusalem. They also have some 7,000 zealously guarded settlers in Gaza.

At Taba, the Israelis presented a map showing 6% annexation of the West Bank, the upper limit of Mr Clinton's suggestion. The Palestinians responded with a map showing 3.1% Israeli annexation in the context of a land swap. The Palestinians have

argued that any land they get in exchange should be equal in quantity and quality to what they give up; the Israelis still insist that the swap should be symbolic only. So far, all the Palestinians have been offered is a strip of desert south of Gaza that is far smaller than any proposed annexation—and even this has now been snatched from them by Mr Sharon, who says he will build Israeli houses there. Israel also wants to hold a lease on a further 2% of the West Bank in the Jordan Valley region, for security reasons.

The 6% annexation proposed by Israel at Taba would accommodate about 80% of the West Bank settlers. The idea is that Israel should evacuate all the settlements in Gaza and most of those in the West Bank. But two or three blocks of settlements would remain under Israeli sovereignty: one at Gush Etzion, south of Bethlehem; one at Ariel (meaning a deep finger of land stretching from the border into the West Bank); and one at Maale Adumim, east of Jerusalem. The outlying settlers could presumably shift themselves, if they so wished, to join the blocks.

Politically, the Israelis assumed that withdrawal could be made palatable to the public at home if they stressed that most of the settlers, though not most of the 145 settlements, would remain under Israeli rule. But the Palestinians at Taba, though prepared to accept the blocks at Ariel and Gush Etzion, balked at the plans for Maale Adumim, and the stretch of land between this and Givat Zeev. A lot of Palestinians live in this area, which is also East Jerusalem's most important land reserve.

The numbers of settlers are still increasing, by less than before the *intifada* but still well above natural growth. They are not a homogeneous bunch. The settlements in the Jordan Valley were established soon after the 1967 war for security reasons. Today only a few thousand people live in these mainly farming communities. Most of them are politically moderate, and would probably leave without a fuss if required to do so.

Not so the so-called “hillcrest settlements” farther west, which are populated by hard-core ideological settlers, most of them religious, and many of them belonging to the Gush Emunim movement which sets up Jewish outposts in the heart of heavily populated Palestinian areas. Israeli peace activists believe that a quarter of all settlers are now “ideological”. They would presumably be the hardest to remove, and some might forcibly resist.

Closer to the 1967 border are the non-ideological settlements, among them sizeable towns such as Maale Adumim (25,000), Ariel (17,000) and Givat Zeev (11,000). These people are “ordinary” Israelis, mostly centre-right in their politics, looking for subsidised and roomy housing and “quality of life”. Most of their homes fall within the settlement blocks, but if they were asked to leave, they would probably do so, as long as they were offered adequate compensation.

Carving up the Holy City

Jerusalem, sacred to Muslims, Jews and Christians, arouses passionate emotion. Israel annexed East Jerusalem after the 1967 war, and greatly enlarged the municipal borders. But its annexation is unrecognised by the rest of the world.

The city was high on the agenda at Taba, and discussions, even on the most sensitive subjects, reached an advanced point. Building on Mr Barak's softening of Israel's claim to Jerusalem as its undivided capital, there was agreement that the city would one day be the capital of both states: Yerushalaim, the capital of Israel; and al-Quds, the capital of Palestine. And the Israelis no longer argued, as they did once, that a Palestinian suburb, such as Abu Dis, should masquerade as al-Quds.

Both sides accepted in principle Mr Clinton's practical suggestion that there should be Palestinian

sovereignty over Arab neighbourhoods and Israeli sovereignty over Jewish districts. The Palestinians were ready to discuss Israeli sovereignty over all Jewish settlements in East Jerusalem, except for those, such as Har Homa, that were built after the signing of the Oslo agreement in 1993. In the abstract, both Israelis and Palestinians favoured the idea of Jerusalem being an open city, without division. But while the Palestinians argued for an open city encompassing the full municipal borders of West as well as East Jerusalem, the Israelis, their minds on security and the sanctity of West Jerusalem, wanted to restrict the openness to the Old City and nearby.

In the Old City itself, the Palestinians were ready to accept Israeli sovereignty over the Jewish Quarter and part of the Armenian Quarter. Both sides agreed that religious and managerial control of holy sites should be accorded to whichever government deemed the place holy. Israel would have sovereignty over the Western Wall, though there was some argument over one segment of the wall. And nobody could decide what to do about Temple Mount, or Haram al-Sharif, which is holy to both Muslims and Jews. There was some disposition to go along with Mr Clinton's suggestion that sovereignty above the ground should be Palestinian, and below the ground Israeli.

All this was then. Now, after the bitterness of the past 19 months, it would be hard to find any Israeli government willing to touch these semi-proposals. The best that could be managed, the Israelis now say, is some interim solution that allows the Palestinians more control over Arab neighbourhoods, but leaves all emotionally loaded issues to do with sovereignty or the holy places to some future time when the skies may, perhaps, be brighter.

On the other hand, Israel has a crucial interest in finding a solution to Jerusalem. Only two countries, Costa Rica and El Salvador, have embassies in the city. Even the best of Israel's friends, the United States, does not recognise it as its capital.

Where shall the refugees go?

The right of return—the right of Palestinian refugees to go back to ancestral homes in what is now Israel—is often assumed to be the most vexed of all these vexed issues. Israelis insist that granting this right would mean swamping the Jewish state. Palestinians assert that their right is inalienable under international law, and that only when justice prevails can they consider the conflict ended.

A scattered and homeless people

Distribution of Palestinian refugees, January 2000

Region of origin	Destination				
	Jordan	West Bank	Gaza strip	Lebanon	Syria
Jerusalem	319,145	191,713	1,550	1,826	2,384
Gaza	266,203	38,869	544,859	515	1,885
Lydda	625,332	172,015	271,244	31,627	23,834
Samaria	57,581	71,637	1,293	505	620
Haifa	158,532	96,530	4,352	70,722	86,297
Galilee	138,607	12,408	583	271,347	268,341
Total	**1,565,400**	**583,172**	**823,881**	**376,542**	**383,361**

Source: United Nations Relief and Works Agency for Palestine Refugees

The positions seem hopelessly opposed. Politicians on both sides drum up the emotional resonance of the

issue. Yet quieter voices have sounded out reasonable proposals for compromise.

During Israel's painful birth in 1948, some 750,00 Palestinians, or three-quarters of the native population, fled their homeland or were forced out, never to be allowed back. Of today's estimated 5m Palestinian exiles, about half are registered refugees living in 32 camps scattered across Jordan, Syria and Lebanon.

To add them to the almost 10m people already jammed into Israel and the occupied territories, a space the size of Sicily, sounds a calamitous proposition. Trying to stick them into the far smaller area of a future Palestinian state in the West Bank and Gaza would be equally disastrous. At the same time, the refugees cannot forever remain stateless dependants of the United Nations, as many of the third-generation descendants of original refugees still are. Lebanon's Palestinians, for instance, still face onerous restrictions on where they can work and live.

The Palestinians have the letter of international law on their side. General Assembly resolution 194, passed in 1948 and often reiterated, calls explicitly for refugees to be given the choice of returning to their homes or being compensated. It is this notion of choice that provides the first wedge of middle ground. Peaceniks on both sides have toyed with ideas, sometimes in public, sometimes in private. Prominent Palestinians have suggested that what they seek is Israeli acceptance of the principle of a right of return, not its absolute application, which, they concede, history has rendered impracticable.

The main point is to create a Palestinian state. Stateless Palestinians everywhere would leap to claim its nationality, but only a minority, say optimists, would actually choose to uproot themselves and physically return to an uncertain future in crowded Palestine. Others would be satisfied by reasonable compensation or resettlement, paid for by an international trust to which Israel could contribute.

At Taba the Israeli negotiators suggested informally that perhaps 25,000 refugees might be allowed into Israel over a three-year period under a family-reunion scheme. Such a number would hardly affect Israel's demographic balance, and would be greatly outweighed by a “return” to Palestinian rule of the 200,000 Arab residents now living in Israeli-annexed East Jerusalem. Other possible destinations included the areas ceded to a Palestinian state as part of a land swap for Jewish settlements. But the bulk would settle in the West Bank, with many moving into conveniently abandoned Israeli colonies.

The ground has shifted since Taba, of course. Current Israeli thinking is to throw Arabs out of the country, not bring them in. Hard men have taken over both Israeli and Palestinian society. Peaceniks, and reason itself, are marooned at the margins. Can they be rescued?

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America and the Middle East

Slouching towards Bethlehem

Apr 11th 2002 | WASHINGTON, DC
From The Economist print edition

The secretary of state's mission to the Middle East is a last-ditch attempt at American engagement in the region. And if it fails?

Get article background

COLIN POWELL'S slow journey eastwards is becoming an exercise in damage limitation. The secretary of state's mission is an attempt to limit the damage that Ariel Sharon and Yasser Arafat are inflicting on their own region. It is an effort to limit the damage to America's relations with Arab countries. And finally it is supposed to limit the damage the Bush administration has done to its own foreign-policy credibility because of division within its ranks. Mr Powell's chances of success look poor on all three counts.

The aim of damage limitation itself represents a sort of failure. When he announced his secretary of state's visit, George Bush seemed to think that the mere exercise of presidential authority would be enough to bring all sides to their senses. “Enough is enough,” the president barked on April 4th. “I meant what I said,” he reiterated four days later. It was as if he had only to snap his fingers and a ceasefire would appear. Perhaps such hubris was understandable. The administration has been able to get its way elsewhere through the exercise of raw political will.

But not this time. Even before he took wing to Morocco on the first leg of his journey, Mr Powell started to reduce expectations. He talked merely of moving towards a ceasefire, rather than achieving one as a precondition. His own timetable—he took four days to reach Jerusalem—seemed designed to let Israel continue its military occupation of the West Bank, presumably in the hope that a pull-out would start later. (The administration claimed the four-day preamble was needed for spadework with friendly Arab states and European allies.)

It is still possible that a modest withdrawal might be achieved. Under American pressure, Mr Sharon has withdrawn partially from several West Bank towns but pushed into others. Israel is in the middle of its biggest military operation in years, and such actions are intrinsically unpredictable. The ambushing of 13 soldiers in Jenin, followed by a suicide bombing in Haifa, immediately caused a defiant Mr Sharon to say his government's military offensive would continue—hardly a promising sign.

And America's difficulties with Mr Sharon's government may go beyond the timing of any withdrawal. Mr Powell's trip adds one more link to a seemingly endless chain. First America sponsored the Oslo accords.

When those broke down, it came up with the Mitchell process. When that floundered, there was the Tenet ceasefire plan. When that was rejected, General Zinni went to the region. Now Mr Powell is trying to fast-rewind the process—to persuade the parties to go back to Zinni, so they can implement Tenet, to get back to Mitchell to restart something rather like Oslo. The trouble is that Mr Sharon has been a critic of the Oslo process all along—so the American government may be talking completely past the Israeli one.

Things are only a little better with the moderate Arab regimes. Some American officials say that fears for the stability of Jordan—where 60% of the population is of Palestinian origin and where the queen herself led a pro-Palestinian demonstration—were decisive in persuading the president to dispatch Mr Powell to the region. Others say that even if the Jordanian regime were not in immediate danger, the demonstrations could have forced Jordan and Egypt to cut their ties with Israel—with unpredictable consequences. So at his meetings with Arab leaders, Mr Powell went out of his way to make the right soothing noises to them and tried to fend off allegations that he was delaying reaching Palestine (see article).

The trouble is that doing much more than that to please America's Arab allies would require America to put greater pressure on Israel than it now seems willing to do. Events on the ground are anyway making damage limitation in the Arab world harder to achieve. Growing violence on Israel's northern border with Lebanon is increasing the risks of a wider confrontation between Israel and the Arab states, which would put further strain on America's Arab ties. And although the administration has demanded that the Arab states do their bit by denouncing terrorism, it has not formally brought them into the peace negotiations.

If limiting damage in Israel and the Arab world is proving hard, that must raise doubts about the final part of Mr Powell's damage-limitation exercise: papering over the cracks in the administration itself. The decision to send the secretary of state has halted, temporarily, debate within the administration about how to handle the Israeli-Palestinian conflict and, in particular, how to treat Mr Arafat. But it has not settled these divisions.

In January, according to *Time* magazine, the vice-president, Dick Cheney, and the secretary of defence, Donald Rumsfeld, joined forces to persuade Mr Bush to give up on Mr Arafat and no longer treat him as “the indispensable interlocutor”. The decision to give up on Mr Arafat was soon reversed. And Mr Powell's current visit to the region is one more attempt by the Americans to include the Palestinian leader in peace negotiations.

But the criticism of Mr Arafat was only part of a broader re-evaluation of America's role in the Middle East—a view which holds that Israel's fight against Palestinian terrorism is comparable to America's war against al-Qaeda; which is sceptical of the land-for-peace formula embodied in the Oslo accords; and which argues that the Israeli-Palestinian conflict is a distraction from America's real strategic mission in the region—the overthrow of Saddam Hussein. This view has not yet been rejected.

The recent policy of engagement has come about largely, it seems, as a result of Mr Cheney's own trip to the region in March. He set off to rally Arab support for an attack on Iraq, found when he was there that no one would countenance the idea until the Israeli-Palestinian conflict was resolved, and returned saying “The fact of the matter is, there isn't anybody but us [to mediate].” This conclusion tilted the balance of power within the administration in favour of engagement.

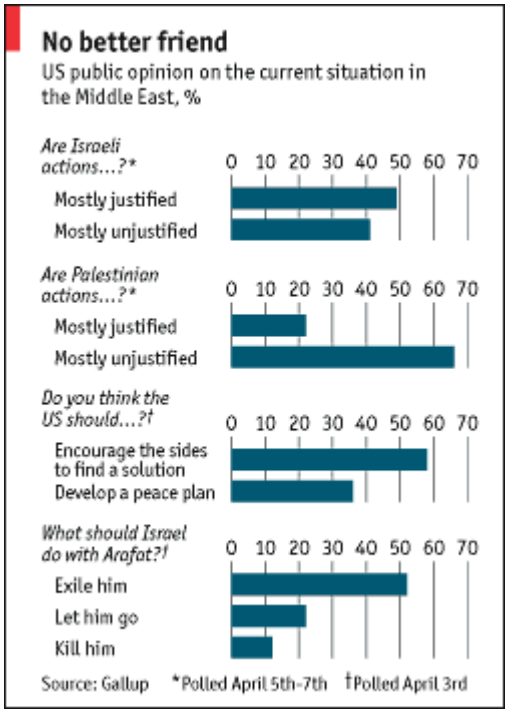
But Mr Cheney's change of mind seems to have more to do with Iraq, and a preference for not alienating Arab states unnecessarily, than with the Middle East per se. If that is right, there must be doubts as to how far the administration would be willing to go in brokering peace talks if Israel refuses to withdraw fully or if there is a ceasefire which then breaks down.

There are a couple of signs that Mr Powell might be willing to wade in more deeply. In Cairo, for example, he said he would be willing to send American observers to monitor any ceasefire. He also suggested that America might be willing to short-circuit the Tenet-Mitchell-Zinni process and jump straight to real negotiations.

But if he were to do this, he would face fierce opposition at home. The defence department's view of the Middle East as a distraction from Iraq has been set aside, not rejected. The American people still seem relatively unsympathetic to the Palestinians (see chart). Congress is largely pro-Israeli and Dianne Feinstein, a senator from California, is threatening to introduce a bill that would cut off ties and funding to the Palestinian Authority if Mr Powell's visit is a

failure. Lastly, pro-Israel conservatives are growing alarmed by Mr Powell's attempts to compel Israel to withdraw. One group, the Project for the New American Century, which played a role in shaping the “axis of evil” speech, says the secretary of state's trip threatens to be a “disaster”. Another influential group, the Centre for Security Policy, wants Mr Powell's expedition to be cancelled.

Against that background, American policy in the region seems condemned to be tentative and cautious, even as it deals with parties who are becoming more intransigent by the day. The much-quoted phrase, “slouches towards Bethlehem”, comes from an apocalyptic poem by W.B. Yeats, “The Second Coming”. In it Yeats dreads a time when “The best lack all conviction, while the worst/Are full of passionate intensity.”



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The Los Angeles Police Department

No parking

Apr 11th 2002 | LOS ANGELES
From The Economist print edition

The boss of a fiercely independent force is booted out

WHEN Los Angeles adopted a new city charter two years ago, one of its aims was to end the politics that have swirled around its police force. Fat chance. The Los Angeles Police Department (LAPD), thrown into union-busting in the early years of the 20th century, has always stirred passions. Now the Police Commission has stirred some more by rejecting Bernard Parks's bid for a second five-year term, citing a profound loss of confidence. Technically, the city council could overturn the civilian commission's four-to-one vote on April 9th; but that looks unlikely.

The battle began in February, when James Hahn, the new mayor, said that Mr Parks should go. Mr Parks insisted that his internal reforms, giving police officers better access to their superiors, had made his department more accountable, driven out corruption and improved the enforcement of the law, leading to a reduction in crime. These reforms were not popular with the police union, which thought they were too bureaucratic and promised to spend $1.5m fighting Mr Parks's reappointment; but many outsiders thought they did not go far enough. The mayor saw Mr Parks, who has spent 37 years in the LAPD, as personifying a defensive culture that resists outside interference.

In terms of racial politics, however, Mr Hahn's victory may prove a Pyrrhic one. Historically, blacks have often borne the brunt of the LAPD's worst excesses, and have pushed hardest for change, including civilian oversight. But Mr Parks is himself black, and many African-American leaders support his reappointment.

Mr Hahn, though white, depended on blacks for his election last year. (Their loyalty was a bequest of his father, who with admirable tenacity stuck up for the interests of his largely black constituents during 40 years on the county board of supervisors.) The mayor's dropping of Mr Parks has been denounced as treachery by various black leaders. His one vote on the commission came from its only black member.

Sitting on the sidelines of the argument are the Latinos, who represent 46% of the city's population. They are still under-represented in both the police and the city's political hierarchy, but their power is slowly increasing. By contrast, the clout of blacks, who comprise just 11% of the population, could be waning. That, as much as anything else, may explain the indignation about Mr Parks's removal.

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Slavery and the law

Time and punishment

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Are reparations a new way to atone for the legacy of slavery? Or a new way to fleece companies and taxpayers?

Get article background

AP

Fagan, lawyer with a cause

WHAT would Abraham Lincoln have made of Edward Fagan? In the past few weeks, the New York lawyer has launched a war against firms that he claims profited from slavery, filing legal complaints against FleetBoston, a bank, Aetna, and CSX, a transport company. New York Life, Lehman Brothers, Norfolk Southern, Liggett and Lloyd's of London will follow next week. In all, some 60 companies are in his sights.

The suits are being filed on behalf of all descendants of slaves in America, a 30m-strong group. The defendants are the legal successors of entities that existed when slavery was still legal: FleetBoston, for example, is the present-day incarnation of the Providence Bank of Rhode Island. Economists put the current value of the companies' ill-gotten gains in the trillions (see article). Mr Fagan reckons a settlement would fall somewhere “in the tens of billions”. The lawyers will collect a percentage of that.

Calls for reparations date back to the 1960s. In 2000 Mr Fagan was approached by Deadria Farmer-Paellmann, a black activist who has provided much of the research (and is one of the plaintiffs). The current plan seems to rely on two things: a few companies tiring of the lawsuits and agreeing to pay up, and others lobbying the government to shoulder its share.

In 1988 Congress authorised payments to 80,000 Japanese-Americans who had been interned during the second world war. Some $1.6 billion was paid out. But the precedent for the present lawsuits is Nazi slave labour. After the war the German government made big reparations, particularly to Israel, for its role in the Holocaust. In the 1990s Mr Fagan and other lawyers sued German firms on behalf of former slave-labourers. Legally, the case was fiddly: much revolved around whether slave labour was legal under the Nazi regime and whether too much time had passed to prosecute the firms. Two suits, against Degussa and Siemens, were dismissed by a judge who decided that reparations were a matter of foreign policy and politics, not of the law.

But public opinion proved decisive. With New York regulators deeming Deutsche Bank's recalcitrance over the issue to be a barrier to its purchase of Bankers Trust, and with hundreds of local authorities threatening regulatory sanctions, the Germans worried about their ability to do business in America. Bill Clinton assured them that a settlement would protect them against future suits. A fund of $5.2 billion, created by the firms and the German government, is now being disbursed.

The legal merits of slavery lawsuits are even more contentious. Last year a United Nations conference on racism in Durban (from which America walked out) branded slavery “a crime against humanity” which “should have always been so”. Mr Fagan argues that there should be no statute of limitations for such a crime. But the legal idea of a crime against humanity was invented decades after slavery was banned in America, so a court will have to define that crime retroactively. The UN conference steered clear of doing that.

The plaintiffs' case may be undermined by the money involved. They say that every dollar a firm should have paid to a slave 150 years ago should be subject to compound interest at a rate tied to the firms' growth. Each dollar could be worth anything from $6,250 to over $400,000. “This is exactly the kind of

Each dollar a firm should have paid to a slave 150

ridiculous lawsuit that a statute of limitations is designed to prevent," says Richard Epstein, a law professor at the University of Chicago.

years ago could be worth anything from $6,250 to over $400,000

Assessing the profits banks and insurers made from slavery is also hard. FleetBoston's ancestor, for instance, profited from financing the slave trade when it was already illegal under American law. Its contracts were thus all technically unenforceable, frauds for which the statute of limitations has long since expired. And although slavery itself was certainly profitable, it is less clear whether Aetna made money from insuring it.

When quizzed about such obstacles, Mr Fagan and his clients reply that public opinion will sway the courts again. Mr Fagan predicts boycotts, shareholder lawsuits, even race riots. Local politicians are being urged to hold hearings and create commissions to study the impact of slavery in their jurisdictions. A "Millions for Reparations" march is planned for August in Washington, DC.

Will it work? Cleverly, Mr Fagan will multiply his chances of success not just by suing more companies but by launching complaints in more jurisdictions across the country. In recent years, American juries have often found against big companies in such celebrity cases. John McWhorter, a black conservative at the Manhattan Institute, bets that all three companies sued so far would rather settle out of court.

If they do, they will surely lobby Congress to contribute its share. Until the civil war, the American government was as complicit in slavery as its German equivalent. Mr Fagan reckons a fund like the September 11th victims' compensation fund, where the airlines and the federal government paid in to a government-administered pot, would be a good resolution.

A nation decides

But it is not clear that public opinion will rally to Mr Fagan's cause as readily as he hopes. The Germans—foreigners who had committed crimes against Americans, many of whom were still alive—were easier targets. Polls have shown 70% of whites objecting even to a public apology for slavery. Despite a longstanding campaign for reparations by Charles Ogletree, a Harvard professor, black leaders also seem divided on the issue. Jesse Jackson supports the suits. Others think that the government alone should pay up. Some want the money to support a fund devoted to black education; others would prefer a cash payment and a national apology. A few worry that the lawsuits could distract Americans from re-examining the role of slavery. "If a lawsuit does not lead to a general discussion in society about slavery," argues Elazar Barkan, the author of "The Guilt of Nations" (Norton, 2000), "then the lawsuits are not very helpful."

One lawyer who advised the German firms to settle says that their American counterparts should "go to court and fight like hell." Such tough talk may not last long: companies that come under pressure from Mr Jackson's boycotts tend to settle quickly. But it is hard to see how all this will help America understand its past.

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Right-wing readers in New York

Do they exist?

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A noble, if oxymoronic, quest

WITH seven new Pulitzer Prizes awarded this week, the *New York Times* would seem to represent the peak of American journalism. In a country where most cities have only one paper, New York is also home to two competing tabloids, the *Village Voice* and countless neighbourhood sheets. So why take on the *Times*?

The soon-to-be-launched *New York Sun*, named after a deceased publication famous for whimsically proving the existence of Father Christmas, will be a 12-30-page broadsheet—a form of newspaper that, apart from the *Times* and a handful of other publications founded in the 1800s, has largely ceased to exist. The *Sun's* pitch is that it will be more conservative than the *Times* and write more about the city. Its managing editor, Ira Stoll, has spent the past two years running a website, Smartertimes.com, that amusingly skewers the *Times* for its allegedly leftish views and questionable knowledge of New York outside Manhattan.

Conservatives like to claim that there are chinks in the *Times*'s ideological and commercial hold over the city. Circulation growth has been almost entirely outside the city. The paper's endorsements, strangely enough for Democratic union-backed candidates, failed in the recent mayoral campaign and the last gubernatorial election. Most of the more interesting ideas in the city have come from the right.

Conservative dreams of the *Times* withering will surely remain just that. And there is already a local paper of sorts for reactionaries: the *Wall Street Journal* does not endorse many Democrats. Commercially, the best thing going for the *Sun* is that, underneath its bluster, the ambitions of its owners (who include Lord Black of Crossharbour, the owner of the *Daily Telegraph*) are actually fairly modest.

Unlike big unionised papers, the *Sun* will be a lean organisation, with a mere 50 people in its newsroom. The paper believes it can be viable with only 60,000 subscribers. Those readers will probably be relatively upmarket ones (unlike those of the tabloids, whose admen have to counter the perception, in the words of a former retail tycoon, “that your readers shoplift from my stores”). It may work. From the point of view of journalistic variety, it would be good if it did.

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The appeal of guns

Pinkos and pistols

Apr 11th 2002 | WASHINGTON, DC
From The Economist print edition

It's no longer just Middle America that believes in defending itself

AP

THINK of gun enthusiasts and you don't immediately think of the "polyamorous" and BDSM communities. (For the uninitiated, BDSM stands for "bondage, domination and sado-masochism".) But that may be because you are the victim of outmoded prejudices—about gun ownership, that is, not about BDSM.

The Pink Pistols, an organisation of homosexual gun enthusiasts, boasts some 2,000 members, with chapters across the country. The group introduces new shooters to the sport and endorses candidates who support both the Second Amendment and "the rights of consenting adults to love each other how they wish however they wish". Its slogans include "armed gays don't get bashed" and "pick on someone your own calibre".

This is only one example of the gun culture's onward march into liberal (in the American sense of the word) territory. The trailblazer was arguably Jews for the Preservation of Firearms Ownership, which was founded in 1989 to promote gun-ownership among one of the most leftish ethnic groups: it now has about 8,000 members. The Tenth Cavalry Gun Club, named after a black regiment, tries to "increase the numbers of people of colour in the firearms world".

The Harvard Law School is arguably the command centre of American liberalism. But the school's gun club boasts some 120 members, 5% of the student body. Alexander Volokh, who founded the club late last year, takes members shooting on a range in New Hampshire. Guns are banned on the Harvard campus; the New Hampshire range displays a sign saying "Children under 13 shoot for free." Mr Volokh plans to hold a wide range of gun-themed events on campus, including screenings of films which feature "regular people using guns as a force for good". Another student wrote an article in the *Harvard Law Record* entitled "Discovering the Joy of a Semi-Automatic".

Mount Holyoke, an all-women's college more readily associated with Betty Friedan than with Charlton Heston, has now formed the first college chapter of the Second Amendment Sisters, a national organisation of pro-gun women. About 50 women have signed up. There is even a gun club in an art school, the Maryland Institute College of Art. Justin Sirois, the club's founder, describes it as a "work of art" and argues that it disproves the "sissy" stereotype of art students. "There have been hundreds of respectable people who love the art of marksmanship and just downright blowing things apart," says the club's website, which features photographs of William Burroughs and Hunter S. Thompson brandishing weapons.

Why is enthusiasm for guns spreading from the heartland, from the America that voted for Bush to the America that voted for Gore? One obvious reason is September 11th, which heightened people's sense of vulnerability and underlined the importance of self-reliance. The people who prevented Flight 93 from slamming into Washington were ordinary citizens who took the law into their own hands.

But Osama bin Laden emphasised trends that were already there. Mr Volokh points out that enthusiasm for guns is a form of counter-cultural rebellion, rather like smoking cigars. What better way can there be to tweak the tails of the leftish types who run universities than to worship at the same shrine as Dirty Harry, or to join a group called the Armed Pagans?

Groups like the Pink Pistols and the Second Amendment Sisters also emphasise something else—

empowerment. Guns are making it easier for women (most of whom are physically weaker than men) and for homosexuals (who are often the victims of unprovoked assaults) to defend themselves. John Lott, of the American Enterprise Institute, points out that women are more likely to escape unharmed from an assault if they have a gun. Doug Krick, the founder of the Pink Pistols' Boston chapter, says he knows of several homosexuals and trans-sexuals who have saved themselves from attack by showing guns.

The idea that empowerment grows from the barrel of a gun is a commonplace in the American heartland. Now it is starting to be heard in the other America.

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Lexington

Don't drop the dead donkey

Apr 11th 2002
From The Economist print edition

The Democrats aren't quite as feeble as they look

A COUPLE of weeks ago, the most visible Democratic candidate for the presidency in 2004 made a revealing statement. Look at the polls, he said. No Democrat stands a chance against the mighty George Bush. The only question is: “Who can best lose?” Al Sharpton is hardly a mainstream Democrat. But his pre-emptive defeatism expresses his party's mood. Mr Bush is sitting on top of the highest sustained job-approval ratings in presidential history. Democrats are so desperate for crumbs of comfort that they have been caught celebrating the fact that Mr Bush's poll numbers have fallen from the 80s to the 70s.

Republican candidates for this autumn's elections speak with a single voice. Defend the tax cut; pump up spending on the war on terror; praise the president; and—*sotto voce*—question the patriotism of anyone who criticises him. The Democrats, by contrast, are at sixes and sevens over everything from who should lead them to what they should stand for. With the most talented Democrats afraid of harming their presidential prospects in 2004, forceful speaking has been left to folksy octogenarians like Robert Byrd and seedy money-men like Terence McAuliffe.

The party has all but conceded foreign policy to the Republicans. But its domestic agenda is not much better. Congress returned this week, providing the Democrats with their most important pulpit, the Senate. But the party still can't decide what to say in its budget resolution, which defines its position on taxes, spending and fiscal policy. All America can expect is predictable carping about Mr Bush's energy plan. The only Democratic initiative to capture the public's attention in recent weeks was Al Gore's decision to shave off his beard. Americans are pleased about that: 62% think that Mr Gore looks better without the beard; 92%, according to one late-night comedian, think that the beard looks better without Mr Gore.

Yet, for all that, it would be a mistake to write off the Democrats. They continue to matter for a very simple reason—what Harold Macmillan, a patrician British prime minister, once defined as “events, dear boy, events”. Unpredictable happenings lifted the president and his party to their current stratospheric heights. Unpredictable events could bring them down again.

Mr Bush's popularity rests on foreign policy. But foreign policy is a notoriously fickle friend. The turmoil in Israel is already tarnishing the president's reputation. Before the Passover massacre, he looked like the successful CEO of a superb terrorism-fighting firm. Now he looks indecisive and confused. He cannot pursue his war against terror to its logical destination—getting rid of Saddam Hussein—without calming troubled waters in the Middle East. But he can't calm those waters without restraining Israel and “appeasing” Arabs and Europeans.

Take the president's foreign-policy leadership away from him, and he is not left with much. Mr Bush was not swept into power with a clear mandate for change at home, as Ronald Reagan was. Whatever they thought about Bill Clinton personally, most voters liked his policies—particularly his management of the economy. Mr Bush's signature policy—big tax cuts—has not galvanised the electorate. The Democrats retain their traditional advantages on most social issues, such as health care, Social Security and the environment. Another bout of recession, triggered by rising oil prices, could easily turn undecided voters against Mr Bush on the economy, too.

Even in their tattered state, the Democrats should just be able to fight the Republicans to a draw in Congress (probably keeping control of the Senate). That would allow them to hang on to a good deal of power. Thanks to better local campaigns, they are also likely to capture three or four governorships, giving them control of a majority of America's statehouses for the first time

The Democrats are likely to capture three or four

since 1994. These statehouses bring with them control of much of the machinery of local politics, particularly redistricting. They also provide a training ground for future presidents.

governorships, giving them control of a majority of America's statehouses for the first time since 1994

And in the slightly longer term, the Democrats have some powerful social trends on their side. Ruy Teixeira, the co-author of a forthcoming book on the emerging Democratic majority, points out that they do well among two increasingly important social groups: professionals and racial minorities. In the early 1970s, minorities comprised just 10% of the American electorate. Now the figure is closer to 20%. Mr Teixeira points out that the Democrats also dominate the country's “ideopolises”: the noisy urban melting pots that shape the country's culture. A few years ago the Republicans had a stranglehold on Florida. Now, thanks largely to the growing number of professionals, non-Cuban immigrants and ideopolis-dwellers, the state is up for grabs.

Worries in the White House

The best proof that Mr Teixeira is on to something can be found in the White House. The presidential team is not acting as if it is sitting on top of an enduring Republican majority. Karl Rove, Mr Bush's key political strategist, has long argued that the Republicans need to co-opt Democratic issues (notably education) and woo traditionally Democratic groups such as Latinos. He has also worried that Evangelical Christians, who vote Republican, may be beginning to stay away from the polls. Now his sense of vulnerability has grown. How else can you explain the White House's decision to abandon its free-trade principles for a mess of votes in Pennsylvania and Ohio? Or its ham-fisted attempt to persuade the Californian Republicans to rally behind a pro-abortion moderate in the governor's race? Or its love affair with Jimmy Hoffa and other union leaders?

None of the Democrats' structural advantages will matter much unless the party's leaders can lift their game. They need to find a way of capturing the public's imagination that doesn't involve sprouting and then removing facial hair. That task will be difficult; but not so difficult that the Democrats should conclude that the only thing that matters is how they lose.

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Argentina's corruption

Enter the scapegoat

Apr 11th 2002 | BUENOS AIRES
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EPA

The many reasons why Domingo Cavallo now finds himself in jail

Get article background

“GUILT is born only when power dies.” Thus Maximiliano Rusconi, the former head of Argentina's state prosecution service, and his words were never truer. As Argentina's financial mess continues and its list of loathed politicians grows longer, an investigation into illegal arms shipments to Croatia and Ecuador, which was thought to have died five months ago, has acquired new life.

On April 3rd Domingo Cavallo, the former economy minister, was arrested for his alleged role in the shipments. A week later, his property was placed under embargo. At the same time, a higher court ordered the judge in charge of the case, Julio Speroni, to reopen investigations into the part played in the shipments by ex-president Carlos Menem, his right-hand man, Emir Yoma, and a former defence minister, Erman Gonzalez. Charges against Messrs Menem and Yoma were dismissed by the Supreme Court last November.

For many observers, especially outside Argentina, Mr Cavallo—who passed rapidly from political glory to ignominy as the government of President Fernando de la Rua collapsed at the end of last year—is the classic scapegoat. His arrest, said the *Wall Street Journal*, “should be the final nail in the coffin of IMF lending to the Argentine government.” Certainly it is hard to imagine Judge Speroni ordering Mr Cavallo's arrest while he was still in office. Indeed, in December he formally declared that Mr Cavallo had no case to answer. On April 10th, however, Judge Speroni produced the necessary new evidence: declarations from customs officials that they had been prevented from checking the illegal shipments by “secret decrees” from above, in other words from Mr Cavallo's ministry.

The former economy minister is not in jail alone. A neighbouring cell houses the state security secretary from Mr de la Rua's government, charged for his role in the violent repression of anti-government demonstrations. The former president himself, since his fall, has also come under a barrage of judicial attacks.

By cracking down on the once-powerful, Argentina's judges hope, among other things, to curry favour with a highly restive population. But the current government of President Eduardo Duhalde also appreciates this distraction from the country's dire problems. Local newspapers and television have published well-documented charges that Carlos Soria, head of the state security services, lobbied several judges to press for Mr Cavallo's arrest.

All this should not obscure the fact that Mr Menem and his ministers, not least Mr Cavallo, have serious charges to answer. In the arms case, the customs service failed to check the shipments and the exporters received unjustified rebates from the tax authorities. Both these agencies were the responsibility of Mr Cavallo. The former minister is also at the centre of an investigation into gold-smuggling and associated fraudulent tax rebates during the 1990s. He faces some tough questions, too, over a debt swap last June, which reduced the country's debt-servicing by a mere $12 billion between 2001 and 2005 in exchange for increasing it by $66 billion thereafter.

Mr Menem, too, is worth another look. Although he calls the re-opening of investigations against him “political persecution”, his rule in the 1990s was rife with scandals, and his case has not been helped by the discovery last year that he had opened secret multi-million-dollar Swiss bank accounts in his family's name.

On past experience, however, the worst that most of Argentina's former rulers have to fear is a few months' preventative custody in a luxury prison. No major figure has yet been convicted, Mr Rusconi points out, even in apparently open-and-shut cases such as that of the bribes paid by the local office of IBM to win a contract with a state bank. The case dates from 1994, the route that the money took has been established, the Swiss bank accounts are discovered and a major participant has committed suicide, but the case has still not reached a public hearing.

Mr Rusconi wants to see a total overhaul of the justice system, with independent prosecutors and specialised investigative units. He would also like to reappoint or replace, in an open fashion, the current crop of judges, “the bulk of whom owe their appointment to some political backer.”

But this is Utopian. Mr Duhalde's only effort to shake up the judiciary has been the establishment of a congressional commission that may remove some Supreme Court judges. And, in a clear sign of business as usual, the president is apparently ready to let the charges drop in exchange for favourable rulings in cases that threaten his government's economic plan. The judges and the politicians still depend on each other too much.

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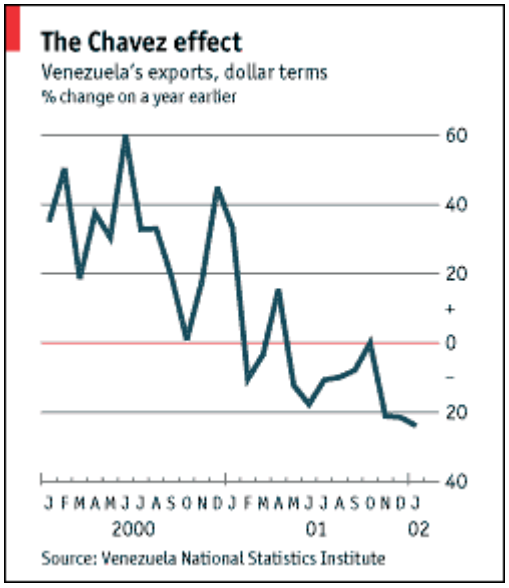
Venezuela's crisis

Towards the endgame

Apr 11th 2002 | CARACAS
From The Economist print edition

Inexorably, the pressure builds to drive Hugo Chavez from office

Get article background



DAY by day, the forces ranged against Venezuela's populist president, Hugo Chavez, are getting bolder. On April 9th, a general strike was called by the main trade union body, the Confederation of Venezuelan Workers (CTV), in association with Fedecamaras, the main business association. Proclaiming that a success (though the government, naturally, called it a failure), the new labour-business alliance decided to extend the strike for another day. At the end of that day, they announced they would go on indefinitely—until, that is, Mr Chavez goes.

The government responded dismissively and calmly, but there is plenty of anxiety behind the scenes. Not only unions and managers, but military men as well, are coming out against the president. On April 10th, an army general appeared on television to denounce Mr Chavez as a lying traitor. On the same day, General Lucas Rincon, the head in effect of the armed forces, announced a meeting with the strike organisers on Thursday. He claimed to have Mr Chavez's blessing, but it is thought that the president was forced into this by his generals. It has been clear since the start of the year that the army, while not wanting to stage a coup itself, would have no problem joining in with one fomented by others.

Appropriately enough in Venezuela—the world's fourth-largest oil exporter, where oil provides more than half the government's revenues—oil was the principal trigger for the strike. When Mr Chavez promoted his own favourites to the board of the state-owned oil company, Petroleos de Venezuela (PDVSA), over more senior managers, dissidents in the company began to take industrial action. Not surprisingly, the CTV was only too delighted to link hands with them.

No love is lost between Mr Chavez and the leaders of organised labour. The president came to power committed to dismantling what he calls the “rotten elites” of Venezuelan society. He managed to get rid of many old union bosses with ties to other parties, but failed to replace them with leaders loyal to his own political party, the Fifth Republic Movement (MVR). The new union bosses, a more mixed bunch, are therefore no friends of his. Mr Chavez has been deliberately goading them to strike, perhaps calculating that the sooner they fired their big guns the sooner he could defeat them. The strike has now got much bigger, and more dangerous, than he anticipated.

Of more urgent interest to the rest of the world, however, is the effect of all this on Venezuela's oil industry. The country's neighbours, and especially the United States, depend heavily on Venezuela for supplies, especially with the Middle East in turmoil. But the strike has brought wide disruption. PDVSA officials say that oil production has fallen by 20%, and the country's largest refinery has been running at less than half its normal capacity. Rumours have been heard that Venezuela—which normally ships more than 2m barrels a day—is on the brink of suspending oil exports completely. “Media-induced hysteria,” says Mr Chavez. The neighbours must hope he is right.

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Canada's census

Please come, we need you

Apr 11th 2002 | OTTAWA
From The Economist print edition

Want to live in Canada? Would-be immigrants should wait no longer

THE first results of the May 2001 census, just published in Canada, have sparked a lively debate. Much to the consternation of the Liberal government of Jean Chrétien, the country does not seem to be growing fast enough. Canada's population, now 30m, has risen only 4% since the last census, in May 1996. For the first time in many years, the population of the United States grew faster (by 5.4% over the same period), and Mexico's twice as fast. And for the first time since 1945, most of Canada's growth came from immigration.

This is now a heavily urban country, with 80% of Canadians living in towns of more than 10,000 people. (In 1956, the figure was 56%.) The Calgary/Edmonton corridor in Alberta, where the population has grown by 12.3% since 1996, now houses more people than the four Atlantic provinces put together.

Most of this particular growth stems from eastern Canadians heading west. Newcomers to Canada overwhelmingly prefer the three big cities, Toronto, Montreal and Vancouver. More than half the immigrants who came to Canada after 1996 settled in Ontario, and two-thirds of those went to Toronto, where 40% of residents are now foreign-born. In 2000 the largest percentage of immigrants, 16%, came from China.

Canada, like all developed countries, is also ageing fast. Today only one in eight Canadians is over 65, but that number will double by 2035 and the costs of pensions and health care will soar, to be paid for mainly by a smaller proportion of people still working. A recent report by the Institute for Research on Public Policy, however, suggests that Canada should not worry about this. The working population will be better educated, better paid and pay more taxes, while many of the elderly will work longer and will have salted away retirement savings under tax deferment. From the point of view of public finances, the report claims that “Canada is probably the best equipped among industrial countries” to deal with an ageing population.

Yet older people mean a falling birth-rate, and this contributes to Canada's failure to keep up with its neighbours. The immediate response of both Mr Chrétien and Denis Coderre, the immigration minister, is that the country needs more immigrants. Some 227,000 arrived last year, but since 1993 the Liberals

have set an annual immigrant target of 1% of the population. Politics is the spur here, since immigrants tend to vote for the federal party that admitted them, and the Liberals have held power for most of the past century.

The Commons immigration committee recommended last month that asylum-seekers who are approved as refugees should receive permanent resident status within 60 days, which could mean skipping full security screening. To some, that smacks of panic. Critics argue that Canada's population will not decline for another quarter-century, even if net immigration drops to 80,000 a year.

James Bissett, who headed the immigration service in the 1980s, criticises MPs who want to broaden the family-reunification class of immigrants. Families, who have made up almost 80% of the inflow in recent years, do not need any qualifications beyond relationship to a sponsor. As a result, according to a recent university study, more than half the immigrants arriving since the 1980s have been living below the poverty line, lacking the skills to get decent jobs. Increasingly, Canada's cities can provide neither cheap housing nor public transport for the poor immigrants they already have. Do they really want more?

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Trinidad

We not in that

Apr 11th 2002 | PORT OF SPAIN
From The Economist print edition

Complete, but gentle, political deadlock

AP

Waiting for parliament

ON APRIL 5th, for the first time since a bitterly fought December election that produced an 18-18 tie, the parliament of Trinidad and Tobago managed to meet. Its first task was to elect a speaker. No luck. The mainly Afro-Trinidadian People's National Movement (PNM), now in government, proposed candidates. The house split down the middle. The opposition Indo-Trinidadian United National Congress (UNC) came with a few thousand names of its own—but voted against them too, just in case one proved acceptable to the other side. After two days of low comedy, the prime minister, Patrick Manning, asked the mainly ceremonial president, Arthur Robinson, to prorogue the session.

What next? Parliament must agree on a budget by October 31st. Another election before then, the third in three years, might break the deadlock. A few hundred votes would swing either party's most marginal seat. Meanwhile, political tempers run high. A former UNC finance minister and five associates spent April 5th in court, facing corruption charges.

The PNM rules out power-sharing, saying the UNC cannot be trusted to keep agreements. It has a point. Last December, both party leaders agreed on a candidate for speaker, and handed the choice of prime minister to President Robinson. But when Mr Manning was chosen on Christmas Eve, the UNC's Basdeo Panday immediately denounced the new government as illegal. As the incumbent, he said, he had an automatic right to stay in office.

As parliament met, lawyers outside argued procedural fine points. Academics proposed reforms. And on the Brian Lara Promenade in Port of Spain the other Trinis cashed their pay-cheques, shopped, played chess or “limed” with an after-work beer. Riots and mayhem? We not in that.

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Ecuador's economy

In hock

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From The Economist print edition

How not to please the IMF

ONCE again, Ecuador is struggling to make ends meet. This year, President Gustavo Noboa's government faces a shortfall in its funds for debt repayments of $500m on top of a budget deficit of $500m—in all, a hole of 6% of GDP. Since Ecuador adopted the dollar in March 2000, the government can no longer print money. The local market is already saturated with government bonds. And foreign investors, recalling Ecuador's default on its foreign bonds in 1999, have no appetite to lend. That leaves the IMF and other lenders—but talks over a new bundle of loans worth $500m are not going well.

Carlos Julio Emanuel, the finance minister, has promised to balance the budget, but won't say exactly how. Now Mr Noboa himself has complicated the issue by deciding last week to freeze electricity prices, reverse a recent increase in telephone charges and ditch plans to cut the subsidy on domestic cooking gas, which would have raised the price of a cylinder from $1.60 to $5.50. These measures, he says, should enable Ecuador to meet a target of single-digit inflation by the end of the year. They will certainly add another $150m to the budget deficit.

The IMF reckons that Ecuador should in any case be running a fiscal surplus, of 1.5% of GDP. The economy is growing strongly again, largely thanks to oil. The Fund will not open its wallet before Ecuador's Congress approves a fiscal-reform bill to make sure that the oil money is not squandered. A new oil pipeline, due to open in September 2003, will boost government revenues by at least $150m a year. Under the bill, some of this money would be paid into a fund for hard times, and the rest would go to reduce the $14 billion public debt. The government sent the bill to Congress on March 26th, but approval in a form it—and the IMF—would like is not guaranteed.

Mr Noboa also wants to privatise the state electricity firms, both to raise cash and to attract private capital to modernise Ecuador's creaky infrastructure. But 71% of Ecuadoreans, in recent polls, oppose electricity privatisation. Last month the government halted the sale of ten of Ecuador's 17 state-owned electricity distributors, which it had hoped would raise $380m. It says it will sell the other seven firms this month, but may not do so now.

In the end, the IMF will probably help. But a loan is unlikely to arrive before June and, by then, cash could be tight.

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Indonesia

Trading on her father's image

Apr 11th 2002 | JAKARTA
From The Economist print edition

AP

Megawati Sukarnoputri is doing very little to grapple with her country's problems. So far, the strategy seems to be paying off

Get article background

LIKE the volcanoes that lower over Indonesia's landscape, President Megawati Sukarnoputri presides over the country from a lofty and impassive distance. Unlike them, however, she is largely inactive. According to her supporters, that is not such a bad thing: a spell of stability, they say, is just what the country needs after getting through four presidents in as many years. Her detractors, on the other hand, worry that the country is drifting towards disaster. In fact, there is no sign that the country is moving in any clear direction. Miss Megawati is doing enough to keep the country from ruin, but not much more.

Indonesia is indeed more stable than when Miss Megawati came to power last July. She has brought all the major political parties into a coalition government, thereby avoiding the constant cabinet reshuffles and policy reversals of her predecessor, Abdurrahman Wahid. Her economic ministers have pressed on with reforms, albeit painfully slowly. In March, the government finally sold Bank Central Asia (BCA), one of the many banks it took over after the financial crisis of 1997 and which had languished for more than two years on the auction block. It is also reducing its budget deficit by cutting expensive fuel subsidies, despite popular opposition. The country's creditors have expressed willingness to roll over its huge debt, while the IMF, which suspended relations with Indonesia in 2000, has started lending again. All this has helped to keep the rupiah's exchange rate to the dollar at a little under 10,000 to one for most of the new president's tenure.

There are also some signs that Miss Megawati's government is beginning to combat Indonesia's ruinous corruption. Her attorney-general is pursuing charges against Akbar Tandjung, the speaker of one of the two houses of parliament, and even succeeded in getting him slung into jail for a time. The central-bank chief was convicted last month for misappropriation of funds and Tommy Suharto, the wealthy son of a former president, is on trial over the murder of a Supreme Court judge.

But these isolated successes are all the government has to show for nine months in office, and on close examination none is as impressive as it looks. The government's durability stems less from deft manoeuvring than from a collective weariness at the endless political turmoil. Cabinet ministers still contradict one another and denounce government policies in public. Likewise, Indonesia's new creditworthiness has less to do with fiscal rectitude than with its newly found strategic significance as part of America's war on terror. The markets reacted wanly to BCA's sale, because instead of selling it to experienced bankers, the government chose an alliance of an Indonesian cigarette maker and an obscure American investment fund. Besides, BCA is only one of many state-owned assets whose sale is long overdue.

By the same token, the president's drive against corruption is hardly wholehearted. Despite supporting the prosecution of Mr Tandjung, she has resisted a more wide-ranging inquiry into the scandal. Many Indonesian commentators dismiss the case as politically motivated, since Miss Megawati's PDI-P party stands to gain most from disarray in Mr Tandjung's party, Golkar. She has done nothing, they say, to pursue the bankers who bilked the treasury of billions at the time of the financial crisis. In fact, she recently suggested easing their repayment terms, before backing down in the face of public uproar. Perhaps most damaging of all, rumours of impropriety continue to swirl around her influential businessman-husband, Taufik Kiemas.

In others areas, the government pursues contradictory policies or none at all. Despite remonstrations from Singapore, Malaysia and America, it has dragged its feet over the arrest of suspected Islamic terrorists. It has undercut peace talks with separatist guerrillas in Aceh by sending more soldiers to the province. It seems to be losing control of the army, which recently admitted that some of its men might have been involved in the murder of Theys Eluay, a politician from West Papua, another restive province. It even failed to see to it that the drains in Jakarta were cleaned before the rainy season, causing unusually severe flooding earlier this year.

In general, Miss Megawati displays little initiative or ideology. Instead, she seems caught up in nostalgia for the era when her father, Sukarno, was president, Indonesia was an important diplomatic power and there was no talk of separatism. On a recent tour of Asia, she displayed evident delight as she tracked down the widow of a man who had once given her father an aeroplane, reminisced with North Korea's Kim Jong Il about a conference they both attended in 1965 as presidential offspring, and launched a quixotic attempt to bring peace to the Korean peninsula. Indonesia's more workaday concerns, by contrast, do not seem to interest her much.

Yet the members of Indonesia's parliament do not seem exercised about the president's passivity. There is little appetite for formally censuring Miss Megawati, unlike Mr Wahid. All the major parties are trying to mend or fend off internal rifts. None offers much in the way of alternative policies. Attendance is low. Most members of parliament are interested only in feathering their own nests, says Alvin Lie, an MP himself. He says that he is regularly offered money to vote one way or another. Members of all parties agree that they are more concerned to consolidate their position ahead of elections in 2004 than to launch any bold new schemes.

But all this is not as disastrous as it sounds. After the riots, bombings, resignations and impeachments of the past few years, mere political paralysis seems to many Indonesians like a blessing. Even as the government dithers, a good harvest and reasonable oil prices have helped to keep the economy ticking over. Most Indonesians count themselves lucky if the government does not actively damage their affairs. After 32 years of Mr Suharto's authoritarian rule, many are happy to live under a less resolute regime. Perhaps they only worry about politics—like volcanoes—when they erupt.

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East Timor

Getting ready for statehood

Apr 11th 2002 | DILI
From The Economist print edition

Asia's imminent addition elects its president

Get article background

THE first presidential election in East Timor, on April 14th, is turning into quite a contest—but not between the candidates. Xanana Gusmao, a former resistance fighter and figurehead of the country's independence movement, is certain to defeat Francisco do Amaral, his only rival. But the campaign has embroiled Mr Gusmao in an increasingly testy exchange with estranged resistance comrades who now dominate East Timor's fledgling parliament. With UN administrators due to relinquish control of the territory on May 20th, friction between president and parliament is just one of the teething pains East Timor is experiencing as independence nears.

The future country's prospects look immeasurably better than could have been hoped for in 1999, when anti-independence militias backed by Indonesia ran riot after a referendum on independence went against them. Scarcely a building in Dili, the capital, was left unburnt. Most of the province's schools, clinics and infrastructure were destroyed. About one-third of the population fled across the border to West Timor, then as now part of Indonesia proper, to escape the devastation. Since then, the UN has done its best to restore order, first by sending peacekeepers and policemen, and then by helping the Timorese to build a government. Over 200,000 out of 250,000 refugees have returned. A parliament elected last year has drawn up a constitution, selected a government and passed basic laws.

But one of the chief attributes of an independent country is still lacking: recognised frontiers. The Indonesian contingent failed to show up for a border-surveying mission earlier this year. Indonesia continues to tolerate the remnants of the militias on its side of the border. It took two years of talk to set up a bus service between the main bit of East Timor and its exclave of Oecussi.

Nor will East Timor be financially independent for several years to come. Donors poured some $300m into the country last year, or about $400 for every resident. But the handouts are set to fall dramatically, to about $55m in 2004, still a couple of years before East Timor's offshore oil starts bringing in big revenues. At independence, East Timor will instantly become the poorest country in Asia, according to a forthcoming UN report. Three-quarters of the population still eke a meagre living off the land. In Dili, the main occupation seems to be catering to foreigners there to administer the aid. Sergio Vieira de Mello, the UN's outgoing proconsul, admits that more should have been done to develop the local economy.

Yet none of these issues has had much impact on the campaign. Instead, senior figures in Fretilin, the party that dominates parliament, seem to be trying to dent Mr Gusmao's support. The soon-to-be prime minister and speaker of parliament both announced they would spend election day on the beach, an example unlikely to bolster the turnout. Mr Gusmao threw a tantrum over the design of the ballot papers. In terms of petty politics, at any rate, East Timor will begin life fully formed.

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Sri Lanka

Meet the new democratic Tigers

Apr 11th 2002 | KILINOCHCHI
From The Economist print edition

But are they for real?

Get article background

UNTIL September 11th Velupillai Prabhakaran was arguably the world's most audacious and successful terrorist. His Liberation Tigers of Tamil Eelam had murdered a Sri Lankan president and a former Indian prime minister, and nearly managed to assassinate Sri Lanka's current president. They had killed nearly every Tamil politician of consequence with views more moderate than Mr Prabhakaran's. The LTTE's female “cadres” perfected the craft of suicide bombing. Their cause: the liberation of the Tamils in Sri Lanka from oppression by the country's Sinhalese majority.

On April 10th Mr Prabhakaran emerged from self-protective seclusion to face the press for the first time in a decade. Gone was his signature Tiger camouflage dress, and with it the image of dictatorial ruthlessness. His new costume is a safari suit, his new line peace and the trappings of democratic politics.

Mr Prabhakaran's performance at least bodes well for the peace process, which began soon after Sri Lanka elected a new government in December, though his professed conversion to democratic norms is less convincing. Mr Prabhakaran seemed to go further than ever before towards hinting that he might give up his goal of secession from Sri Lanka, stating that though the time was “not yet” ready for the demand to be dropped, it could be reconsidered if the Tamils' right of self-determination were recognised. Sri Lanka's prime minister hailed his remarks as a step forward.

Although ceasefires and peace talks have failed before in the two-decade long war between the government and the Tamil minority, which lives mainly in the north and east, there are greater grounds for optimism than usual.

On April 9th the road linking Colombo, the capital, to Jaffna, the Tamils' cultural centre in the north, was opened for the first time in 12 years. Restrictions on the flow of goods into Tamil controlled areas, a major grievance, have been eased. Mr Prabhakaran says the new Sri Lankan prime minister, Ranil Wickremesinghe, and mediation by Norway, have improved the odds that the latest peace process will work. He did not dwell on recent bans on the LTTE by Britain and Canada or the military stalemate between the rebels and the government, which sharpen the incentive to talk.

Tamils in Mallavi, a town in the Tamil-controlled Vanni area, dutifully echo their leader's optimism. “We are confident the people in charge will do the needful,” said the manager of the local branch of the Bank of Tamil Eelam.

No one seems to take issue with Mr Prabhakaran, whose picture adorns most shops. Monuments to martyred Tigers overshadow temples and churches, seemingly supplanting the local religions. In Vanni, a region that has been bypassed by time, Mr Prabhakaran commands a *Führer*'s awe rather than the mere respect accorded to ordinary leaders.

But Mr Prabhakaran is striking democratic poses. He promised that parties besides the LTTE would be allowed to operate in the north-east. The Tigers have recently apologised to Muslims, whom the LTTE expelled from Jaffna in 1990. “The Tamil homeland belongs to the Muslim people,” he declared. The LTTE

has an interest in placating them. They are an important minority in the east, which Mr Prabhakaran regards as part of his realm; a party representing them is a pillar of Mr Wickremesinghe's government. Without their co-operation, Mr Prabhakaran will find it hard to unite Sri Lanka's north and east under Tamil rule.

What of other alleged sins in Mr Prabhakaran's past? He dealt with them through a mixture of denial and diversion. The killing in 1991 of Rajiv Gandhi, a former Indian prime minister, was a “tragic incident”. The charge that the LTTE presses children into its army is “unacceptable”. What about the liquidation of opposition Tamils? “We are adopting new strategies,” said Mr Prabhakaran.

His democratic pretensions will be tested when and if an interim administration takes over the government of the north and east. That is to be a main subject of negotiations in Thailand, probably starting next month. That is also when airy talk of peace will encounter the realities of power. There is now some hope that Sri Lanka's government and the Tamil minority will find ways to share it. It still seems less likely, though, that Mr Prabhakaran will concede any of it to other Tamils.

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Taiwan and China

A wafer-thin argument

Apr 11th 2002 | TAIPEI
From The Economist print edition

The market and a high-tech dispute

Get article background

IT SHOULD be the perfect business opportunity. A fall in demand for semiconductors in the past year has left idle 30% of Taiwan's silicon wafer-making capacity, representing about $10 billion in investment. Meanwhile, China's market for chips is predicted to be worth around $15 billion this year, growing to $41 billion by 2005. About 95% of this demand has to be met with imports. Officials in Beijing are almost begging semiconductor manufacturers—such as Taiwanese ones—to set up in China, but as usual in the prickly Taiwan-China relationship, politics has intervened.

Taiwan's government relies for its majority in parliament on the support of a small China-phobic party, the Taiwan Solidarity Union (TSU). The TSU has vehemently opposed the lifting of a six-year-old ban on chip makers investing in China. This, it claims, would strengthen its potential enemy.

Chip makers, though, say the kind of plants they want to move across the Taiwan Strait are those that make eight-inch wafers, using 0.25 micron etching technology, two or three generations behind the most advanced 12-inch wafer production, which use 0.13 micron technology. What China wants is technology to make low-grade chips for consumer electronics, not to enhance its missiles aimed at Taiwan, they say.

The government could have simply lifted the ban without consulting the TSU. But if it opted for a policy of controntation with the TSU on this issue, the party might refuse to co-operate on other controversial parts of its proposed programme. In a fudge, the government will allow chip makers to set up factories in China using old equipment, but not until their 12-inch machines are up to speed in Taiwan, still several years away. The decision has met with grumpy acceptance from both sides. The TSU thinks it has stemmed the flow of technology to China, while the chip makers reckon that the rules will be relaxed further when the government is less a hostage to TSU support.

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North Korea

Talk away

Apr 11th 2002 | WASHINGTON, DC, AND SEOUL
From The Economist print edition

Kim Jong Il says he is ready to talk again. To what end?

MIGHT the sound of ice cracking once more in the deep-frozen hostility between North and South Korea presage a wider thaw? On April 6th, South Korea's special envoy, Lim Dong Won, re-emerged from North Korea and a meeting with its reclusive boss, Kim Jong Il, to announce that, after months of alternating silence and threats from the communist North, its hermit regime was now ready to reopen talks not just with South Korea, but also with the United States and Japan.

South Korea is hoping to resuscitate projects that were agreed at the first ever North-South summit two years ago, but then abandoned by North Korea: family reunions, joint economic ventures and the reconnection of some cross-border rail-freight links. A belated vindication of the “sunshine” policy of South Korea's president, Kim Dae Jung? Hardly. Under North Korea's withering hostility, that policy has already been rebranded as merely “engagement”, and in comments published by his office after his envoy's return, President Kim conceded that many South Koreans “are worried whether this agreement will be implemented.”

With less than a year left in office, he is nonetheless happy to take public credit for this week's progress. Yet senior officials in the Bush administration are quietly confident that their own firmness, including President George Bush's “axis of evil” speech in January, helped persuade North Korea that it had better talk. America's deputy secretary of state, Richard Armitage, argues that the administration's recent decision not to certify that North Korea was fully upholding its end of a 1994 deal to end its production of bomb-useable plutonium (in return for which it receives annual deliveries of oil and, if the deal is fully implemented, will eventually get two western-designed nuclear reactors) also helped: it both “lit a fire under our South Korean and Japanese partners,” he says, persuading them of the seriousness of the issues to be tackled with North Korea, and also signalled to the North “that we won't be pushed around.”

America's envoy for Korean affairs, Charles Pritchard, was due in South Korea on April 11th, and is expected to go on to North Korea. Will he find much to talk about? Kim Jong Il has long refused Mr Bush's offer of talks “anytime, anywhere, without preconditions.” He was miffed that the Bush team would not simply pick up where the Clinton administration had left off on a deal to compensate the North for ending its production and exports of missiles. But North Korea cannot expect to “sell off one piece of the threat at a time,” says another American official. America intends to raise a broad range of security issues: not only nuclear and missile problems, but also the conventional threat that North Korea poses to South Korea. Though at first hesitant to raise this with the prickly North, South Korea has been discussing with America military confidence-building measures that it hopes will help break more ice.

And North Korea's likely response? In the past it has demanded dollops of food aid and other goodies merely for turning up for talks. Its food stocks are again running low. Its prime minister recently admitted it needed to open up its economy more. Whether it is ready for a much broader dialogue is still anyone's guess.

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Japan

In search of an opposition

Apr 11th 2002 | TOKYO
From The Economist print edition

If his enemies were not so hapless, Junichiro Koizumi would be in more trouble

Get article background

AP

Hatoyama flounders on

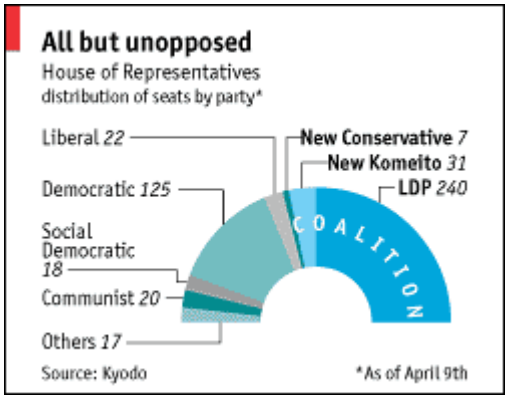
WHAT should opposition parties do when their ideal leader is the man they are meant to be opposing? Nearly a year after taking office, Junichiro Koizumi has fallen on hard times, with party scandals and local-election setbacks compounding his failure to implement quick reforms. Yet even as they complain about his performance, and talk of a no-confidence vote in June, Japan's opposition parties can offer no convincing alternative.

Though Mr Koizumi campaigned on pledges to reform the Liberal Democratic Party, he has always held out the option of bolting it and forming a new coalition, drawn from ruling and opposition groups, should it frustrate his plans. The two largest opposition parties—the Democratic Party of Japan and the Liberal Party—both contain large blocks of former LDP members who back his kind of reform, and who might well go along with such a move. This threat was much more convincing, however, when Mr Koizumi commanded over 80% support. In the latest poll, his government drew half of that. These days, its chances look ever more remote.

Even before Mr Koizumi's popularity slid, the opposition parties had resolved to start being more critical of him. The head of the Liberal Party, Ichiro Ozawa, began sidling up to the Democrats late last year, in a bid to unite the two parties against the government. Many Democrats are former members of the Social Democratic Party, which used to be the LDP's main opponent but has recently likewise fallen on hard times. This faction has grown much more critical of Mr Koizumi since September 11th, as his government has adopted a more robust defence policy. The Democrats' other main faction is closer to the LDP on security issues, and favours the sort of reforms Mr Koizumi promised. But the longer he fails to deliver, the more disgruntled this group becomes.

Since sacking his popular foreign minister in January, Mr Koizumi's troubles have mounted. Two prominent LDP MPs have been engulfed in corruption scandals. One of them, Koichi Kato, was until recently a close ally of Mr Koizumi's.

Poor performances in two local elections have also hurt the prime minister. On March 31st, an independent candidate defeated his coalition's man to win the mayor's race in Yokohama. And though the coalition's candidate won the Kyoto governorship on April 7th, the biggest opposition parties had also backed him in an attempt to gain local spoils. The Communist Party candidate, however, did well enough at the polls to further rattle Mr Koizumi's fans. The LDP faces a tougher test in parliamentary by-elections on April 28th, when the big opposition parties will field their own candidates.



Against this backdrop, the opposition parties are going to press their advantage. They have agitated for hearings into the recent LDP scandals, and succeeded on April 8th in forcing Mr Kato's resignation from parliament. They have criticised the slow pace of Mr Koizumi's reforms. And this week the head of the Democrats, Yukio Hatoyama, repeated his party's desire to force Mr Koizumi to dissolve

parliament and call snap elections.

Yet the same fatal handicaps remain. If they are to pull MPs away from the LDP, or peel off one of its two coalition partners, New Komeito and the New Conservatives, the opposition parties need a more compelling leader. After Mr Ozawa's wheeling and dealing over the years, few members of other parties trust him. The two most prominent members of the Democrats, Mr Hatoyama and Naoto Kan, are uninspiring. The bottom line for the opposition is that Mr Koizumi is their best candidate.

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The Israeli-Palestinian war

No end to the desolation

Apr 11th 2002 | JERUSALEM
From The Economist print edition

EPA

Israel's invasion of cities and camps, and the likely consequence

Get article background

COLIN POWELL was due to arrive in Israel on April 11th seeking peace. But America's secretary of state will find only desolation as Israel thunders on with its reconquest of the West Bank. The Palestinians are counting their dead—in Jenin, Nablus, Bethlehem, Ramallah and Dura—in their hundreds. In Haifa on April 10th, a suicide bomber from Hamas killed eight Israelis. The American message is insistent: to the Arabs, act against the bombers; to Israel, withdraw from the recently re-occupied Palestinian cities, and do so now. Neither side is listening.

Under stiff American pressure, Ariel Sharon on April 9th moved his soldiers a short way out of Tulkarm and Qalqiliya, two West Bank towns. But he then instructed them to conquer Dura, a town near Hebron , and to invade several villages, including Bir Zeit, near the university. He has told the Knesset that the army “will continue to operate until the mission has been accomplished.”

What is the mission? Israel's prime minister says it is to “uproot terrorists”. Palestinians say it is to destroy the Palestinian Authority (PA), and cow them into submission, fighter and civilian alike.

On April 8th, the army took over the casbah in Nablus. Over five days of ferocious combat, soldiers and militiamen fought house-to-house, and sometimes hand-to-hand, through the medieval labyrinth that is home to 30,000 Palestinians. Mosques were blasted with rockets, ancient bathhouses ransacked and houses raked by machinegun fire. More than 50 Palestinians were killed, some of them fighters, some of them civilians. Bodies were left rotting on streets, under rubble or stacked in mosques. One doctor in the city describes corpses abandoned for so long that dogs had started to feed on them. His ambulances had been barred movement by army fire for five days.

Nablus was the lesser slaughter. On April 2nd, the army invaded Jenin, a West Bank town of 40,000 people. On April 5th, it set about penetrating Jenin camp, where 13,000 refugees live. It is a bastion of Palestinian nationalism, the home to several suicide bombers. Bulldozers tore down shelters, helicopters pitched dozens of missiles into houses, setting them ablaze and toppling apartments, sometimes with people inside them. In a battle lasting a week, 23 soldiers were killed, including 14 in a single Palestinian ambush involving a booby-trapped house, a suicide bomber and a hail of gunfire. It was the heaviest military toll on Israel during the *intifada*. On April 10th, the army claimed that the camp had finally fallen.

No one knows how many Palestinians were slain. The Israelis threw an armed curtain round the camp, rebuffing medics and press alike. But Palestinians inside say that at least 150 died, and probably more. In the absence of facts, there are the tales of traumatised men and boys rounded up by soldiers during the fighting, and then dumped in neighbouring villages. One claims that soldiers lined up six Palestinians against a wall and shot them. Another says that his brother bled slowly to death and his mother, seeking help, was shot in the head. A third tells of how soldiers invaded his home, stripped him naked and kept him that way for 35 hours. A fourth just cries.

As Jenin and Nablus fought and suffered, Palestinians in the other reconquered cities picked over the ashes. In Ramallah and Bethlehem, they took advantage of momentary lapses in the curfew to stock up on food and survey the destruction to their society. Houses had been looted, water and electricity lines ploughed up and offices pillaged.

Before he arrived, Mr Powell played down hopes of an agreement. “I'm not even sure I'll have a ceasefire in hand,” he said. Saeb Erekat, a Palestinian negotiator, explained why: “the Palestinian Authority has ceased to exist”. But the Palestinian leader exists. He remains confined by Israeli guns to one floor of his Ramallah compound, convinced, says an aide, that “every day he holds out is a day closer to Sharon's demise.”

Mr Powell says he intends to meet Mr Arafat while he is in Israel. His message is that this is the Palestinian leader's “last chance” to declare a ceasefire and act against the militias and suicide bombers. And, indeed, Mr Arafat may make such a declaration. But every Palestinian knows it cannot be enforced.

So does Mr Sharon. He says he now seeks a political process “without Arafat” and has designated the PA as “a regime of terror”. This explains why the army is systematically destroying the PA, imprisoning its policemen, commandeering its ministries and confiscating their documents. These now are all deemed “terrorist infrastructure”. They are also the most basic instruments of government.

Nor will Mr Sharon withdraw to the positions Israel occupied before the invasions, but to newly created “buffer zones” that will encircle each Palestinian area, allowing the army to enter them at will—and the settlements to grow, unmolested, beyond them. Meanwhile he will wait for a “responsible” Palestinian leadership that will accept this dispensation.

Such a leadership is imaginary. The Palestinian militias and police forces (they are by now much the same) have suffered grievous blows during the Israeli offensive: scores have been killed, hundreds arrested and arms, equipment and ordnance have been seized. But a trek through the villages around Jenin finds militiamen hiding out in caves chiseled into the mountains, and committed to resuming guerrilla war in the occupied territories and suicide attacks inside Israel. Over 200 militiamen, along with civilians and priests, are sheltering inside Bethlehem's Church of the Nativity, and they are not going to surrender unless the army storms the place.

“We will fight. This is our Karameh,” vows a Palestinian fighter in Jenin. Karameh is a village in Jordan where Israeli soldiers and Palestinian guerrillas first fought hand-to-hand in March 1968. Coming after the Arabs' defeat in the 1967 war, it was the moment when Mr Arafat and his Fatah movement became the undisputed custodians of the Palestinian cause. The leadership then was young, refugee, underground, guerrilla and revolutionary. Out of the ruins of Jenin, Nablus, Ramallah and Bethlehem, the next leadership may be similar.

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Israeli politics

Lurching ever rightwards

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From The Economist print edition

Effi Eitam proves a bit too much for liberal Israeli stomachs

Get article background

EPA

Israel's very own Haider

NOW aged 96, Yitzhak Ben-Aharon was a founder-member of the Zionist Labour movement in 1930. He rose to become a minister in the 1960s, and later served as secretary-general of the then-powerful Histadrut, Israel's trades union federation. This week, Mr Ben-Aharon wrote from his kibbutz home to Labour headquarters asking that his name be struck off the party register "if, as I am horrified to hear, Labour proposes to stay in the Sharon government despite the co-option of the Israeli Jörg Haider."

Next day, April 8th, Brigadier-General Effi Eitam took his oath of office at the Knesset, one of three new ministers-without-portfolio joining Ariel Sharon's government of national unity. Mr Ben-Aharon's threat may have failed, but his analogy with Austria's extreme nationalist stuck. "You give Haider a bad name," an Arab member of the Knesset, Ahmed Tibi, yelled at Mr Eitam, as leftist and liberal members walked out of the chamber in protest at his appointment. Earlier, the leader of the opposition, Yossi Sarid, said that he was "ashamed as a Jew" to live in a country where a "racist, Haiderist" sat in the government.

Mr Eitam, 51, a one-time kibbutznik but now bearded and devoutly religious, had a controversial military career as an infantry commander. Denied general's rank, he doffed his uniform two years ago, and announced his intention eventually to become prime minister. He has also announced to various audiences and interviewers that the Palestinians ought to make their homes outside Palestine, that the mosques on Temple Mount are "a blight of universal proportions", and that Israel's 1.2m Arab citizens are "a ticking bomb beneath our democracy."

This week, the National Religious Party elected him, unopposed, as its new leader. With only five Knesset seats, the party looks to Mr Eitam's charisma to draw in young voters, especially among the West Bank settlers and their sympathisers.

Those five seats, and another three of the Gesher Party, led by a one-time Likud foreign minister, David Levy, give Mr Sharon a significant arithmetical boost in the face of Labour's increasingly strident threats to secede. Significant, but still not quite sufficient: Mr Sharon and his allies would be left with 59 seats if Labour withdrew, in the 120-seat Knesset.

However, a third party, the National Union-Israel our Homeland, is expected to join the government soon, thus securing the prime minister's hardline majority. The leader of this third party, Avigdor Lieberman, is as far to the right as Mr Eitam, although, as a Russian immigrant, he is less blunt about his anti-Arab sentiments.

But Mr Lieberman is uninhibited in his advice about "that dog, Arafat", publicly urging the government to bomb the beleaguered Palestinian leader in his Ramallah headquarters. Mr Lieberman is said to want a promise from Mr Sharon that if Labour leaves, he will get the defence ministry which is now held by the Labour chairman, Binyamin Ben-Eliezer.

At a Labour caucus on April 8th, before the Knesset approved the new ministers, doves demanded that the party leave the government at once, regardless of any tactical calculations. Avraham Burg, the speaker of the Knesset, gave notice that even if the party stayed in, he would no longer vote for the

government. Labour had compromised many principles in the past, he said. But the red line represented by Mr Eitam was “a moral barrier that we must not cross”.

One interpretation of Mr Sharon's lurch to the right—beyond the numerical consideration—is that he is preparing for a tough negotiation, and an inevitable crisis, with America, over the future of the settlements. Reports from Washington, ahead of the arrival of the secretary of state in Jerusalem on April 11th, suggested that the administration is urging Israel to announce a freeze on settlement-building right now, as a way to enhance prospects for achieving a ceasefire. Mr Sharon may be preparing himself to resist.

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Arab responses to Israel's assault

Powell's road to Jerusalem

Apr 11th 2002 | CAIRO
From The Economist print edition

America's secretary of state has been feeling the full force of Arab anger

Get article background

EPA

Egyptians for Palestine

AS THE secretary of state, Colin Powell, set out on his slow trip to the Middle East last weekend, people in the region thought America's agenda to be rather clear. It was, they said, to leave Israel to pummel the Palestinians into submission under American diplomatic covering fire, with the modest goal of winning an eventual ceasefire. But as Mr Powell lumbered towards Jerusalem through a relentless barrage of Arab hostility, the agenda crumpled as it grew evident that America's legitimacy as a mediator was at stake.

Mr Powell's troubles began in Morocco, where half the population of the capital city, Rabat, turned out to protest against the Israeli onslaught, as well as the perceived American backing for it. Discarding niceties, Morocco's King Mohammed scolded Mr Powell in public for failing to go direct to Israel and demand its withdrawal from Palestinian towns.

Subsequent talks with Crown Prince Abdullah of Saudi Arabia, who was holidaying in Morocco, were more outwardly cordial but tougher in substance. Mr Powell was told bluntly that American prestige and credibility in the region were collapsing. The Saudis did not need to remind Mr Powell of the crucial role that American military bases in the kingdom, and elsewhere in the Gulf, could play to help the Bush administration to remove Saddam Hussein from power in Iraq. Nor did they need to note Saudi Arabia's commitment to use its vast resources to stabilise world oil markets, a factor underscored by the recent spike in oil prices caused by Iraq's suspension of exports.

Telling America what to do

What the Saudis did specify were three conditions for backing any American peace effort: an immediate, unconditional Israeli withdrawal; a massive effort to rebuild destroyed Palestinian institutions; and the imposition of American or international forces to monitor a ceasefire.

The same message was repeated at Mr Powell's stops in Cairo and Amman, cities that have been wracked by increasingly noisy demonstrations. Egypt and Jordan, the only two Arab states to maintain diplomatic relations with Israel, emphasised the severe strain these ties—the fruit of decades of American diplomacy—are now under. They also pressed Mr Powell to resist Israel's bid to marginalise, or replace, the Palestinian leader, Yasser Arafat.

Arab allies, who have been ever more frustrated by the Bush administration's aloofness from their concerns, must have felt gratified by Mr Powell's response. With typical candour, the American diplomat admitted to reporters that he had been moved by the strength of Arab feeling. “The cauldron is really spilling over,” he remarked. Whatever justification there was for Israel's offensive, the Israelis must recognise that it was beginning to damage their “strategic situation”, as well, he added pointedly, as that of America.

Departing from earlier equivocation about whether he would deign to meet Mr Arafat, he said he now looked forward to doing so. Mr Powell also moderated previous support for Israel's insistence that a full ceasefire should precede any subsequent political negotiations. Bowing to Arab fears that without a clear

political horizon, the Palestinian leader would be unable to calm his seething people, Mr Powell stated that a truce should be “instantly linked” to political talks.

In Madrid, his last stop before confronting Ariel Sharon and Mr Arafat, the secretary of state made a further gesture to mollify Arab mistrust of American intentions. Breaking from a tradition of go-it-alone American diplomacy, he secured support from Russia, the European Union and the UN's secretary-general for his mission.

His chances of success may look slim, but Mr Powell's show of sensitivity has at least shored up America's reputation. With each day that Israel's offensive continues, passions across the Arab world rise to new heights. Governments that are friendly to the United States are growing increasingly nervous, and with good reason. Nearly all have tried to ride public anger, by talking tough, by raising money for the Palestinians, and by allowing their media to rant at Israeli barbarism and rave at Palestinian heroism. But it is hard to stop their people's anger getting out of hand.

While Mr Powell was in Egypt, police in the port city of Alexandria, having failed to quell a stone-throwing mob with teargas as it bore down on the city's American Cultural Centre, opened fire with shotguns. One student died of his wounds, raising to four the number killed during two weeks of demonstrations in Arab cities from Aden to Zagazig, including one that brought more than 1m marchers on to the streets of Khartoum, the Sudanese capital. In Bahrain, home to the American 5th Fleet, a demonstrator who was felled by a rubber bullet when rioters tried to storm the American embassy was buried as a martyr, wrapped in a Palestinian flag.

Israel's offensive has allowed all America's declared enemies in the region to bask in reflected glory. Iraq, fresh from its diplomatic triumph at last month's Arab summit, scored another populist goal by cutting oil shipments (although the only ones punished by the move are the Iraqis themselves). The Lebanese militia Hizbullah has gained further popular acclaim by continuing to strike at Israeli forces.

All this, of course, comes at the expense of governments that are now the target of sustained and bitter criticism for their seeming impotence. Hamas, the Palestinian group responsible for the most deadly *kamikaze* attacks on Israeli civilians, wins ever more recruits. University students in Mansoura, a grimy town in the Nile Delta, thrilled to a stirring address by the Hamas leader, Sheikh Ahmed Yassin, delivered by telephone from his wheelchair in Gaza.

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Iran's response to Israel's assault

The spectre of being next in line

Apr 11th 2002 | TEHRAN
From The Economist print edition

Iranians are keen to support Palestine, but fear America's intentions

EPA

Iran does its bit

Get article background

IT WOULD be awkward for us if America gets into the habit of changing regimes, said Reza Youssefi, a member of the Iranian parliament's foreign-affairs committee, wincing at his own understatement. Leaders of both sides of the reformist-conservative political divide are transfixed by the possibility that George Bush, who considers Iran, together with Iraq and North Korea, to be an "axis of evil", is searching for a pretext to attack. They fear that unless Iran behaves with uncharacteristic restraint, the intensified Israeli-Palestinian conflict might provide that pretext.

The temptation to transgress may be irresistible. Conservatives gathered around Ayatollah Ali Khamenei, the supreme leader, see themselves as having been vindicated by the maelstrom in the West Bank; when there was a peace process to undermine, they did so with gusto. On April 5th, Mr Khamenei happily encouraged Yasser Arafat, whom he dislikes for personal as well as political reasons, to join those of his compatriots who have embraced martyrdom. And the renewed fighting between Lebanon's Hizbullah guerrillas and Israeli troops along their common border came as a reminder of persistent accusations that Iran trains and arms the Hizbullah fighters.

Ali Akbar Mohtashamipour, a political reformist who, as a youthful ideologue, helped found Hizbullah, has called on countries contiguous to Palestine to facilitate the transfer of ammunition to the war zone. Other reformists, preferring to let the Palestinians fight their own battles, have tried to temper the war-mongering.

President Muhammad Khatami sent messages of solidarity to Mr Arafat. His foreign minister avoided disparaging the Saudi proposal, adopted at the Arab summit last month, to offer Israel peace in return for withdrawal to its pre-1967 borders (Mr Khamenei would probably veto Iranian support should the plan get off the drawing board). A journalist called for an end to suicide bombings, and just about everyone hummed and hawed when Mr Khamenei called for an oil embargo on Israel and its allies: there were red faces when Iraq said it would go one better, and unilaterally implement an embargo.

All in all, the reformists have been enfeebled. Until recently, relations with Hizbullah were on a downward trend, influenced by Turkey's and Syria's decisions, prodded by America, to restrict the amount of *matériel*, bound for militant Arab groups, that transits their territory and airspace. This may now be changing. Amid the carnage in the West Bank's refugee camps, it would take a brave reformist to argue for compliance with Syria's request, *sotto voce*, that Iran further downgrade its links with Hizbullah. A proposed meeting of American senators and Iranian deputies has been shelved; in the current atmosphere, the returning deputies would probably be arrested.

Trying to lead the anti-Israel chorus may cost Iran little, for the moment. But should Mr Bush respond by turning his sights on it, non-Arab Iran will get less diplomatic help from Arab countries than Iraq enjoys. Moreover, an American strike on Iraq might foster the habit that Mr Youssefi deplores. If the axis of evil had not been invented, Iranians might quietly welcome efforts to topple Saddam Hussein, an old and unforgiven foe. If they think they are next in line, they will oppose his fall, conservatives and reformists alike.

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Madagascar's presidents

Two into one won't go

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A constitutional crisis is beginning to turn sour

SINCE a disputed presidential election in December, Madagascar has had two political rivals each claiming the presidency. The incumbent, Didier Ratsiraka, did badly in the first round but claims the right to a second. His rival, a popular businessman, Marc Ravalomanana, claims he won the election outright. Mr Ravalomanana drew hundreds of thousands of peaceful demonstrators on to the streets of the capital, Antananarivo, to support his claim, and he was rewarded with a bloodless grab of parliament, television stations, the central bank and government ministries. He has since appointed a government and recalled parliament.

In February, Mr Ratsiraka fled the widespread protests in the highland capital to set up his own base with former ministers in Toamasina, a coastal city some 250km (155 miles) away. Mr Ratsiraka, who ruled for 23 years, is not giving up quietly, and the situation is deteriorating rapidly. His supporters have built blockades on roads to the capital and have stopped supplies of food, fuel and other goods which come from the coast.

Early this month, two bridges on the main roads to Antananarivo were destroyed, leading to difficulties for its 2m or so residents. One reported this week that “we have no petrol, and the prices of rice, sugar, salt and vegetable oil have gone very high”. Some prices have risen tenfold in two weeks. Although Mr Ravalomanana has called off a general strike by his supporters and told civil servants to go back to work, shops and other businesses open only intermittently, and long queues form for basic goods. The United Nations Development Programme worries that medical stocks in the city are inadequate, if the cyclones and floods that often happen at this time of year bring cholera.

Textile factories, department stores and light industry, which pushed growth rates towards double figures last year, and are mostly found in and around the capital, have been hit by the unrest. European aid donors, who for years have encouraged debt relief, high levels of aid and painful economic reform, are aghast at events.

On April 5th, piqued by his rival's accusations that he is a “neo-fascist”, and worried that the blockade and shortages could sap his support, Mr Ravalomanana attacked Mr Ratsiraka on television. He denounced “people of bad intent who have declared war” by sealing off the capital.

Since the election, at least 25 people have been killed in political violence which gets worse as the language grows fiery. This week, three men were detained on charges of plotting to kidnap the new prime minister, and one of them has since died. In Fianarantsoa, a town 300km south of the capital, at least four people have been killed in the past two weeks as supporters of Mr Ravalomanana tried to oust a governor there. Five of the country's six provincial governors still back Mr Ratsiraka, who is popular in rural areas.

The army has yet to declare its allegiance. Although some soldiers have backed one leader or the other, many in the higher ranks have remained neutral in public. A military governor appointed by Mr Ratsiraka to enforce a curfew in Antananarivo resigned last month, saying that his job was impossible.

Outsiders have had no luck so far in persuading the two candidates to talk. Abdoulaye Bathily, a

Senegalese mediator sent to the island by the Organisation of African Unity, admits he has achieved nothing and worries that the upheaval will provoke trouble between different highland and coastal ethnic groups. After four months of sniping, neither side seems ready to end the stand-off.

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Europe and the Middle East

Allies at odds—all round

Apr 11th 2002
From The Economist print edition

For all the concord in Madrid, West European countries do not agree with the Americans about Israel, let alone Iraq. But they don't agree with each other either

NOT since Vietnam has Western Europe been so divided from its American allies. George Bush may have twisted Ariel Sharon's arm about sending troops and tanks into the West Bank, but the United States remains Israel's very good friend. The Europeans deplore Palestinian suicide bombers, but, by and large, they see the Palestinian case. The two sides of the Atlantic managed to agree in Madrid on Wednesday, when Kofi Annan, Colin Powell, the European Union's Javier Solana and Russia's foreign minister, Igor Ivanov, signed a joint declaration on this conflict. But it was a struggle. As for Iraq, Mr Bush aims openly to change the regime, and will happily do so by force, if need be. By and large, the Europeans would be glad to see Saddam Hussein replaced, but they wonder where an unstable Iraq could lead and have no eagerness for force at all.

Yet “by and large” is a wide phrase. As so often, European governments are disunited about the Middle East. Widely so, indeed. Mr Solana, foreign-affairs representative of the EU's heads of national governments, is the nearest thing they have to a joint voice, and his task is not easy. The other voice, that of the European Commission, the top level of the EU bureaucracy, is more united (and more against Israel); but it has no more troops than Stalin famously attributed to the pope, and less influence.

And, for all Mr Solana's hard work—the Middle East takes up half his time these days—it is still national governments that call the tune. And seldom the same tune.

Almost in step

The **British** government, as often, is firmly with the United States; so firmly, after Tony Blair's recent visit to Mr Bush, that Mr Blair is mocked in lefter-leaning British media as the president's poodle. That is unfair to him, but not wholly so.

In Texas he joined Mr Bush in calling for an Israeli troop withdrawal, and in backing the Saudi plan as a framework for long-term peace. But it was a European, not American, idea that Mr Blair reflected in proposing that, after a ceasefire, outside countries should send teams of observers to ensure both contestants stick to their promises. As to Iraq, Mr Blair was in close step with his host in saying that leaving Iraq alone to develop weapons of mass destruction “is not an option”. But how was it to be

stopped? By military action “if necessary” (as Mr Bush agrees), “involving”—not as an end in itself—a change of Iraqi regime “if necessary and justified” (which is well short of Mr Bush's line). And though the British readily denounce Saddam's actions against his own people, they have deep doubts about the American line that he supports international terrorism.

In contrast, **France**, the other European country that played a significant role in the 1991 Gulf war, is back in a more familiar stance: deep disagreement. When Mr Bush spoke in January of an “axis of evil”, France's foreign minister criticised America as “simplistic”. What he meant, he now insists, was an American way of seeing all world issues as linked to the “war on terror”. Since then, French disquiet has grown. A senior official at the ministry laments European inability to influence American policy. Within the Quai d'Orsay it is conventional wisdom that Mr Bush will later this year attack Iraq, to topple President Hussein; the only question is whether Mr Blair will restrain him or egg him on. And the French doubt that the Americans have thought through the results: probable chaos in Iraq, which—the Arab world apart—could affect, and maybe lead to action by, both Turkey and Iran.

As to the Israeli-Palestinian conflict, the French have long disliked the United States' almost unconditional support for Israel. Yet again, they doubt that the Americans ever thought through its effects. In the immediate crisis, they suspect Mr Bush of thumping publicly on the table at Israel, but quietly ensuring that Mr Powell took long enough getting there to let its tanks complete their work. They reflect woefully on Europe's lack of influence. It has some in Washington; more indeed than they used to think, as the document agreed at Madrid demonstrated, notably in its reference to the need for early political progress, and to a “third-party mechanism” to help peace forward. But will this be reflected in practice—and will the Americans help it to be? When Mr Solana and Josep Pique, foreign minister of Spain, which currently holds the chair of the EU, last week went hastily to the scene, they were refused access by Israel to Yasser Arafat, and crawled home empty-handed.

In this conflict, **Germany** is deeply, and rightly, inhibited by its past. No German government could accept—even if others did, as several would not—the notion floated around Brussels this week that the EU might suspend its preferential trade accord with Israel if there were not a swift ceasefire. Yet the government has quietly held up arms sales; and the foreign-aid minister, echoing thoughts wider than hers, has openly criticised Israel's attack.

The Germans this week launched their version of a peace plan: an international conference under the United Nations, the United States, the EU and Russia; Israeli withdrawal over two years to pre-1967 borders; a Palestinian state; reciprocal Israeli-Palestinian guarantees, plus international ones; and international forces to oversee it all. Some of this met American acceptance in Madrid; a good deal—“two years” and “international forces”, notably—did not.

Discord is wider still on Iraq. After September 11th, Gerhard Schröder promised “unlimited solidarity” in the American war on terror, and said Germany was “prepared to take risks, even military ones”—but not to engage in “adventures”. Germany would happily see Saddam out of the way, but not thanks to a military strike, let alone a unilateral American one; and the government's spokesmen say pointedly that it “cannot imagine” that America “wants to pursue adventures”. In fact, it can: it expects a strike. But Germany will express no view until the EU has agreed on one, as some EU countries tried and failed to do at last month's Barcelona summit; and Mr Schröder has indicated that he will not act except under a UN mandate.

He is eager to get Russia involved in both aspects of the Middle East, and, meeting in Weimar this week, he and Vladimir Putin agreed on three key points: yes, Iraq must let in UN arms inspectors; but also, the “coalition against terror” must be held together; and any action must have full UN authority—a double nudge to Mr Bush, more than a warning to Mr Hussein.

Mr Schröder prays that no strike is launched before Germany's general election on September 22nd. His Green coalition partners are strongly against. His foreign minister, Joschka Fischer, who will lead the Green campaign, has said that the coalition against terror is not to be treated as a blank cheque for military action, especially not single-handed action: “alliance partners are not satellites.” Free Democrat leaders are against a strike; even the foreign-affairs spokesman for the centre-right opposition in the Bundestag has said much the same, and three-quarters of voters agree. Edmund Stoiber, the centre-right's candidate for the chancellorship, before flying to Washington this week, urged Europe to get closer to the Americans, and bring “massive” pressure on Iraq to let the UN inspectors in—but carefully did not say what next if Iraq refused.

And the others

The rest of Europe, militarily, counts for little—nothing, in American eyes. But **Spain**, as one, albeit temporary, voice of the EU, cannot just be ignored. It might wish it could. Its centre-right prime minister, Jose Maria Aznar, makes much of his good relations with Mr Bush and, in private, would have no qualms about a strike at Iraq. He has just signed a wide military co-operation agreement with the United States. But Spain is keen on its Arab links. And he cannot ignore public opinion, long suspicious of the Americans, and these days widely sympathetic to the Palestinians.

For Spain, Mr Pique said this week that Iraq “must” admit the UN inspectors, but if not “the international community will have to consider its response very carefully; and if a military attack were deemed necessary it would be carried out after due consultation with the allies and in accord with international law.” Mr Aznar in the past has side-stepped public sensitivities, offering the Americans bases but saying as little as possible about it. Were an attack to happen, he would emphasise that Spain was joining an international effort against “terrorism”, and play down exactly how.

And **Italy** and others? Silvio Berlusconi too makes great play of being in tune with Mr Bush, and is happy to see the American shift on the Israeli-Palestinian war. But Iraq? “Not on the agenda” is the line in Rome, and the less talk about it the better. The government says it has had no proof of Iraq rebuilding illegal weaponry (let alone of terrorism). Mr Berlusconi has spoken against any widening of conflict in the Middle East. If it happens, he will not rush to arms; only with other EU countries and under UN mandate—and then, slowly.

As for still **smaller countries**, well, thanks for telling us, and now, about that call from the Pentagon... And whether Europe can get a collective act together is in doubt. On Israel, maybe. Nearly all Europeans agree that Israel's attack cannot bring it security; in time it will incite more suicide-bombers, and, as Mr Solana has said, bashing the Palestinian Authority does not help that body, hardly keen at the best of times, to curb them. The Europeans agree too that any ceasefire must involve political progress if it is to work, and that some outside force, on the ground, will be required, to see peace kept and justice done. A meeting of EU foreign ministers on Monday could add extra post-Madrid flesh to these bones, and probably will kill the idea of meddling with Israel's EU trade deal. But few expect any real agreement on Iraq: yes, without dissent, to tough UN inspection, but if Saddam jibs at that? Unity will go no further than crossing of fingers and hoping he doesn't. Mr Bush may wish all were with him, but they are not united against.

Yet one half-European doubter may worry him: **Turkey**. It has been a good friend and supplier of air bases against Iraq, but it does not want Iraq's Kurds set loose; it too has Kurds. And though it also recently befriended Israel, the West Bank carnage has brought unprecedented displays of support for the Palestinians, with an (unofficial, one-minute) “lights out” to be repeated each night till the tanks go home. Even the prime minister, Bulent Ecevit, last week spoke of Israeli “genocide”, but then withdrew, under fire from Jewish-Americans. Just as well: Turkey's generals are happy with the no-strings-attached weapons they get from Israel; and the Bush administration has strong-armed the IMF into bailing Turkey out of its economic woes with promises of $20 billion. That's quite a debt to overlook.

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One Czech and the Arabs

Go, George, go

Apr 11th 2002 | PRAGUE
From The Economist print edition

Clobber Saddam—and Arafat too

SHOULD George Bush decide on some early Iraq-bashing, he can count on at least one eager NATO ally: Milos Zeman, the left-leaning prime minister, till June, of the Czech Republic. Not that the Czechs could contribute much (though they did send a field hospital to Afghanistan), but “the sooner the better,” says Mr Zeman: “Saddam is a terrorist who must be eliminated.”

Not alone among Arabs, it seems. Fiercely pro-Israeli, Mr Zeman, on a recent visit to Tel Aviv, likened Yasser Arafat to Hitler. He got into hot water at home, but is barely abashed. He sees Israel as a small democratic country in a sea of backward, undemocratic ones. It must be supported: “It's a question of leftist solidarity.” There is “a cancer of appeasement in Europe,” he says, drawing an unlikely parallel with the betrayal of Czechoslovakia in 1938.

And the Israelis' offensive in the West Bank? They should have pushed on, exiling or otherwise “disabling” Mr Arafat. The best road to a Nobel peace prize, sneers Mr Zeman, is to follow the Palestinian leader's example: become a terrorist, pretend to give up for a while, pocket the prize money, and start again.

EPA

A left-wing friend for Sharon

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Hungary's general election

Orban loses—with his own help

Apr 11th 2002 | BUDAPEST
From The Economist print edition

Behind in the first-round ballot, the ruling party looks set to lose

THEY sounded desperate, and maybe were, but they were right. In the days before the first round of Hungary's parliamentary elections on April 7th, the ex-communist Socialist Party insisted that the opinion polls were wrong. The polls showed Fidesz, the conservative party of the prime minister, Viktor Orban, at least four points—some said 11—in the lead. Tosh, said the Socialists: the nastiness of the campaign was simply preventing their supporters from declaring themselves.

Unconcerned, Mr Orban urged his supporters to turn out: this first round could win it for him, he said. It allocates seats in those of the 176 individual constituencies where a candidate wins over 50%. It also decides some of the 210 regional and party-list seats. It duly did—and as voting day closed, the Socialists, in a record turnout of 70%, were ahead. They took 42% of the party-list votes, against 41% for Fidesz, 25 constituency seats against 20, and 69 regional-list seats against Fidesz's 67.

Fidesz's position is worse than it looks. In 1998, it was behind in the first round. But Mr Orban could turn for help to a number of allies, including the agrarian Smallholders' Party and the conservative Hungarian Democratic Forum. The three parties withdrew various candidates in the second round to make way for each other, securing a centre-right majority. But since then Mr Orban has been busy uniting the right, and this time there are few Smallholders and no Democratic Forum to turn to. The Smallholders collapsed last year amid corruption scandals, and this time took less than 1% of the vote. The Democratic Forum had been absorbed into a joint election list with Fidesz. And Mr Orban's only other hope, the nationalist Hungarian Justice and Life Party, narrowly fell short of the 5% needed to get any seats at all.

The Socialists and their would-be prime minister, Peter Medgyessy, are better placed than it looks. They lead in 75 of the 131 seats to be decided in the second round, on April 21st. And they are on good terms with the liberal Free Democrats, who took third place in 103 constituencies. The two parties on Wednesday agreed not to fight each other on April 21st: the liberals will withdraw 71 candidates, the Socialists seven. The two are likely to form a coalition after the election, as in 1994.

The game is not yet up for Mr Orban. Characteristically, he came out fighting on Tuesday evening. Pointing to a sharp rise in the Budapest stock exchange following his party's setback, he said it showed Hungary would be dominated by foreign capital if the Socialists won. The 1994-98 Socialist-led government was indeed more free-market-minded than his has been.

But it will be an uphill struggle for him, thanks partly to errors of his own. For much of his time in office, Mr Orban has fought the liberal mayor of Budapest and appeared to have a grudge against the city. Its voters, nearly a fifth of the electorate, turned out to vote in even higher numbers than elsewhere. And only 32% voted his way, against 42% for the Socialists.

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Liechtenstein

Sorry, savers, we've gone legit

Apr 11th 2002 | VADUZ
From The Economist print edition

A new, clean but less profitable image for an old, odd principality

IF IT were simply a business, Liechtenstein's shareholders would be pretty smug. The tiny Alpine principality, with just 32,000 people, has become one of the world's richest spots, thanks a little to industry (it is one of the world's biggest false-teeth producers) and much to its discreet ways with dodgy money.

But life is more complicated. The country, actually a valley, has just been taken off the OECD's money-laundering blacklist—at the price of lessening the once bullet-proof security offered by trusts there against nosy outsiders. Some of the tens of billions of dollars that they manage for the tax-shy and twitchy are going elsewhere. “Certain London lawyers no longer recommend us to their clients,” laments a local money-man.

And there are wider management problems. The ruling prince, Hans-Adam II, is modern-minded, but he has wide veto rights over laws and top jobs. Local politicians are stuffier, but they resent his semi-feudal powers. A big constitutional row has been bubbling.

The prince, able, but bossy and stiff, can give the impression that he sees Liechtenstein as his private property. In a sense it is: his ancestors bought it 300 years ago. His supporters think local politicians uppity and self-important. “This is the same crap as in Germany in 1848,” (when revolutions swept across Europe) says one princeling. The prince himself, a multi-billionaire, has warned his people that if they don't like his rule, they can try living without it; his family, he says, may return to Austria, where it lived until 1938. Most Liechtensteiners want to have their constitution tweaked, but would like to keep their tycoon-monarch. A new government is working on a compromise.

Liechtenstein's longer-term worries are different, though. Oldies fear that the flood of easy money and the opening to the outside world pioneered by the prince are dissolving the country's identity. More than half of all marriages are to foreigners. “Without our traditions, we will become just another Monaco,” warns a local folklorist. Liechtensteiners look down on Europe's other micro-states. Only theirs is a real country, they argue, with industry, true sovereignty and enough democracy to win membership in international organisations such as the United Nations.

Liechtenstein's last moment of glory came in 1945 when it sheltered several hundred anti-communist Russian soldiers, resisting Soviet demands for their forcible repatriation and near-certain death. More recently, it had a turn in the chair at the Council of Europe. “Because we're so small,” says the prime minister, Otmar Hasler, “no one could accuse us of having vested interests.” Except in money and dental prostheses, maybe.

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France's presidential election

Chirac revived

Apr 11th 2002 | PARIS
From The Economist print edition

As Jospin blunders

Get article background

"TIRED, past it, overcome by the wear-and-tear of power." Will Lionel Jospin, France's Socialist prime minister, come to rue his acerbic description of Jacques Chirac, its conservative president?

He may. In early March, polls put Mr Chirac barely ahead in the first round of the presidential election, due on April 21st, and a point or two behind in the second, the one that counts, on May 5th. But then Mr Jospin, hobnobbing with journalists on his way back from a campaign visit to Réunion, a French island in the Indian Ocean, vented his dislike of the president. Ever since, Mr Chirac's second-round score has been inching up; some polls now put him a nose in front. If he can retain this momentum, by May—14 lesser candidates by then having been eliminated—Mr Chirac could be comfortably in the lead.

Hence a touch of alarm, and mutual recrimination, in the Jospin camp. Why did their man have to speak so bluntly? Fair enough among *les Anglo-Saxons*, for whom the odd personal insult is part of normal political discourse; French voters, especially older voters, found this one, aimed at the incumbent president of the republic, shockingly impolite. Is Mr Jospin's antipathy for his opponent becoming an obsession? One that could cost him a campaign which he started with several advantages: a reputation for "Protestant" honesty (hardly the Catholic and scandal-dogged Mr Chirac's strong point); a record of sound economic management; and an impressive team of supporters?

What makes this doubt all the more disquieting for the Jospin team is their failure to close the image gap with Mr Chirac, especially on television. However firmly they tell him to smile, Mr Jospin appears dour and schoolmasterish, while his rival is always *sympathique*, ever able to switch from warm smile to frowning concern. Like Bill Clinton, the French president has the knack of "feeling the pain" of others.

Such trivia could decide the race. There are no deep policy differences. Mr Chirac is no gung-ho free-marketeer; Mr Jospin is no wild leftie. But, outed last year as once a secret Trotskyite, he felt compelled to launch his campaign by saying "my programme is not socialist." And while the right has no recent record of government to irritate the voters, he has been in office for five none-too-easy years, and in uneasy coalition with the Greens and Communists at that.

The trick for his team is to put aside its internal bickering and get its man on message. No simple message, though. He has to persuade left-leaning voters to rally to him in the first round, not wait for the second: if Jean-Pierre Chevènement, an old-style socialist, and the three Trotskyites poll too well on April 21st, Mr Jospin will miss the psychological advantage of starting the run-off ahead. Yet at the same time he must not alarm centrist voters, since, on May 5th, it will probably be the centre—unless keeping it sweet has driven unhappy voters who are strongly right or left to abstain in droves—that decides the race.

The trick for the Chirac team is much easier: let their man, now, after an uneasy start, radiating energy and enthusiasm, for all his 69 years, just keep on smiling.

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Turkey and Greece

Let's be friends

Apr 11th 2002 | ANKARA
From The Economist print edition

Tentatively, two old enemies are beginning to co-operate

Reuters

Turkey after the earthquake in 1999

CAN it be true? Next week, if all goes well, Turkey's foreign minister, Ismail Cem, and his Greek opposite number, George Papandreou, plan to travel together to Israel and the West Bank to see if a joint effort can help the search for peace.

True the new spirit is, and not just at ministerial level. In the Turkish town of Edremit, separated from the Greek islands by a sliver of the Aegean Sea, scores of locals are feverishly studying Greek in crash courses organised by the chamber of commerce. Schoolteachers, lawyers, jewellers, hoteliers: they all seem to be at it, hoping to cash in on a rare burst of business between these two ancient rivals.

The town is but one of many where Greeks have been sniffing for business, thanks to a series of tours organised by the Turkish-Greek Business Council. “The appetite is huge on both sides,” says its Turkish vice-chairman. Last month ministers from the two countries signed an agreement worth $300m to build a pipeline to take gas from Iran and ex-Soviet Central Asia through Turkey to Greece and thence on to markets in Western Europe.

In the past three years, some 60 Greek companies have invested in Turkey. A Greek bank is negotiating to buy Istanbul-based Toprakbank, provided it gets an American partner, for reassurance. The two governments recently agreed on a joint bid to hold the European football championship in 2008. On a smaller but romantic scale, a young Turkish-Greek couple is having a striking success with the first Turkish-music bar in Athens.

Not long ago, all such schemes would have been unimaginable. The two countries fought more than once in the 20th century. As late as 1974, though both by then were NATO members, their troops battled in Cyprus. In 1996 they came close to a fresh clash, over a few barren islets not far from Edremit. Yet in 1999 hostility was put aside, as Greeks and Turks rushed to each other's aid after earthquakes, within weeks, struck Istanbul and Athens.

Already that summer Mr Cem and Mr Papandreou had held the first of what became a series of friendly meetings to tackle old disputes. They have made modest but steady progress. Last month the two countries' diplomats met, for the first time, to discuss their long-running disputes in the Aegean. And though the Greek-Cypriots and Turkish-Cypriots have made little progress in their talks, at least they are still talking; that too is progress of a kind.

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Charlemagne

Catalonia's Jordi Pujol

Apr 11th 2002
From The Economist print edition

Spain's autonomous regions already have a lot of devolved power. Catalonia, notably—but it still wants more

Get article background

HE AND his “nationalists” have run Catalonia since 1980, when the region got a government of its own under Spain's new, democratic constitution. Now, at 71, Jordi Pujol thinks it almost time to go, and has picked his heir. But does that mean he thinks his work is done, he can rest on his laurels as the man who restored Catalan pride, and the Catalan language—call it “dialect” and you'll be skinned alive—to a place of honour? No: even as he hands power to a younger generation, his government has just sent Madrid a raft of claims for more of it.

Spain's constitution was drawn up in heady reaction to the centralist excesses of Franco. It devolves wide powers to all the 17 regions, and even wider ones to three—the Basque Country, Catalonia and Navarre—with peculiar historical claims to more. Not all took over all their functions at once: only recently did several take responsibility for health care. But, for the usual reasons of politicians, and sometimes better ones, all are keen to use fully the powers they have—some, for instance, run local television stations, with the impartiality to be expected of politicians—and would love extra powers (so long, of course, as these came with extra cash). Their demands irk the central government, now headed by Jose Maria Aznar and his rightish People's Party. And they are becoming increasingly noisy.

The noisiest has always been from the Basque region: its ruling party is not just Basque-nationalist but, in theory, separatist; and its ETA terrorists—a distinct group, albeit Mr Aznar likes to hint otherwise—readily kill for that cause. Mr Pujol's nationalists are not like that. They do not want to secede; they do want Catalonia accepted as a nation, within Spain but with its own language, history and traditions. And, given a tweak or two, history supports that view. Yet the question, for all such local nationalists, not just Catalans, is how far the Spanish constitution, and Spain's integrity, can support it; and how far their own voters do. What starts as devolution can end as separation.

This sort of question is not just for Spain but for Europe (indeed the world: ask Canadians or Sri Lankans). And Spain's new European links have given it greater force. Look at Germany, with its strong regional governments, say Spain's regionalists: if they can do it, why not Spain? Then they look at the new centre of some economic power, and rather more than some juicy funds, the European Union. And who speaks for us there, they ask? Madrid; we have no voice of our own at all. Who decides for which part of Spain EU funds, notably for infrastructure projects, are to be sought? Madrid. Mr Pujol's associates complain bitterly that Spain's first, EU-supported, high-speed rail line runs from Madrid to Seville (you know, that place where they grow oranges and flamenco dancers), while the Catalan capital, Barcelona, Spain's biggest industrial centre—and, by the way, on the obvious route to most of Europe—is still waiting for its line.

The answer, thinks Mr Pujol, is plain: when topics affecting Catalonia are at issue in Brussels, let Catalan spokesmen be there, as such, albeit within the Spanish delegation. For Catalan, read Galician or Basque or whatever: when the Basque government was recently renegotiating its financial accord with the centre, a similar demand almost killed the deal. It was flatly refused. Money is money, divisible this way or that; but Spain's voice, said Mr Aznar's team, is not to be divided—we may consult at home, but only Madrid speaks for Spain to the world. Ah, but the German *Länder*... and so the argument rolls on, with a deal of exaggeration of how Germany's system actually works.

The big economic issue, though, is still internal. The regions handle about 60% of Spain's public spending, the centre about 40%. But who makes the big strategic decisions? And with what result? Is it

right that Catalonia contributes about 19% to Spain's GDP, but gets only 15%, and till recently much less, of public investment? Yes, one might think, with poverty-stricken Extremadura in mind. Catalans think not. Why build roads in the desert, they ask? Invest in success, not failure. Again, infrastructure looms large in Catalan complaints. Why do we have toll motorways, while in the rest of Spain they are free? Look at the radial, hub-and-spokes, design of Spain's rail networks and Air Iberia's flights. Why must everything go via Madrid?

Yes, but do the voters agree?

And so on, and widely on: recently Manuel Fraga, the veteran leader of Galicia, weighed in calling for a more regional map of Spanish decision-making. He belongs to Mr Aznar's own party. But he has to fight off Galician nationalists. So in Galicia and Catalonia alike, the local arms of the People's Party are trying to put on a “nationalist” face. The Basque Country's Socialists have been torn apart arguing how far they should do the same.

Yet there is a worm in the golden apple of power and money for which all are reaching. No voter chafes when his region's boss demands more cash from Madrid. Road and rail links, by and large, benefit everyone in the region. Not so language. Almost all Galicians speak the local tongue. Most Catalans do—but only now: it has taken years of teaching of and in Catalan to achieve that, since this rich region has drawn migrants from all over Spain. And even now the mysterious Basque language is natural only to a minority there. Increasingly, schools use it. Are you sure you want your kids taught in Basque? Regionalism is not all pure gain for all voters, any more than for the country.

As he hands over party leadership to his number two, Artur Mas, next year, Mr Pujol can look back at a job well done. And a job passed on in due time and good order, as few long-time bosses manage. “I'm not tired of it and I've not lost my marbles,” he says, and he plainly hasn't. “I just wanted to hand over in an organised way.” One can suspect further reasons: Mr Mas is not guaranteed victory in next year's regional elections. Yet could it be that the job is not one which, in Spain's interest, ought to have been done? There are certainly Spaniards who think not.

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The NHS

Condition still critical

Apr 11th 2002
From The Economist print edition

Despite cheerleading from ministers, the NHS is proving hard to cure

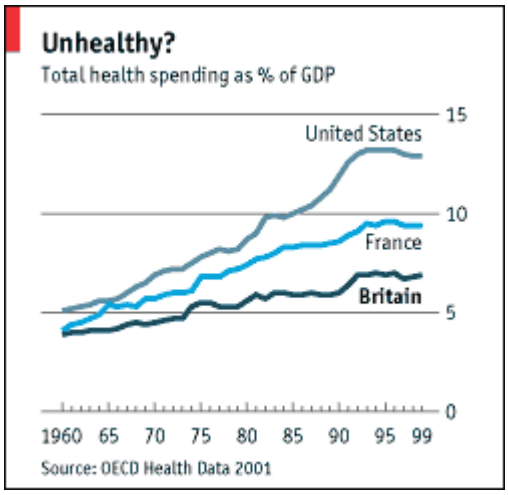
Get article background

THE political imperative is clear. Next week, Gordon Brown is expected to announce plans to raise taxes in his budget. The chancellor of the exchequer will justify this by invoking the need to increase spending on the NHS. So this week, Alan Milburn, the health secretary, has been trumpeting the message that more resources translate into better health care.

The need to demonstrate this link is compelling. The government is increasing real spending on the NHS at an annual rate of 6.4% a year in the five years to 2003-04, much higher than the trend increase of 3.8% a year in the past four decades. This “step change in resources” announced in the 2000 budget is intended to ensure “a step change in results”. The NHS Plan later that year set out a plethora of targets to bring this about, of which the most salient was a commitment to shorten waiting times. The aim was to cut the maximum waiting time between seeing a hospital consultant and an operation from 18 to six months by 2005. The plan also announced ambitious recruitment targets to increase the numbers of nurses and doctors.

The government is now well into its spending spree. Overall health expenditure in Britain has risen from 6.8% of GDP in 1998-99 to 7.5% in the financial year that has just ended. That is not so far away from Tony Blair's objective of meeting the average in the European Union, which is 8% of GDP excluding Britain and calculated without taking into account population sizes. So what has been achieved?

On cue for the budget, Mr Milburn said this week that “overall, the NHS Plan is on course to be delivered”. By the end of March, the maximum waiting time for an operation had been reduced to 15 months, in line with the NHS plan. A year ago, 10,400 had been waiting more than 15 months. The next stage in the government's “war on waiting” is to cut this to 12 months by March 2003.



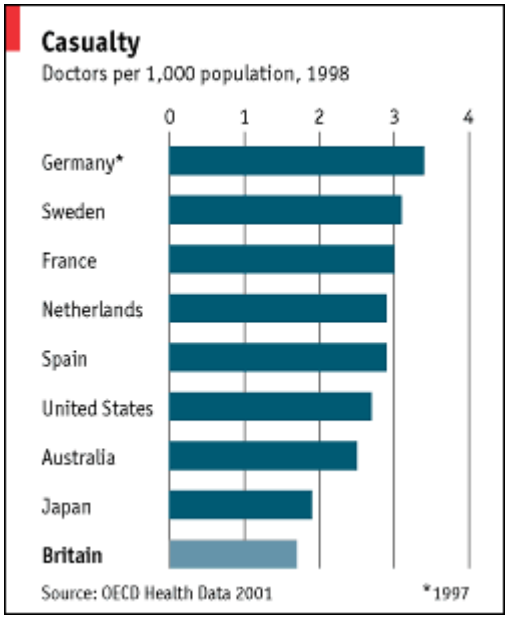
The objective of reducing waiting times is preferable to the discredited objective of Labour's first term of office, the mission to cut waiting lists, but it remains a flawed approach. The target only makes sense if it reflects an increase in treatments. In his annual report on the NHS, released on April 10th, Nigel Crisp, its chief executive, acknowledged that there was little increase in activity in the first half of the year to March 2002, but said that growth started in the second half. He highlighted increases in the number of cardiac revascularisations and urgent cancer referrals.

However, the King's Fund, a health policy think-tank, says that there has been little increase in overall hospital activity in the past two years. “This means that meeting the target can only be met by distorting clinical priorities,” says Anthony Harrison, a researcher at the King's Fund. Either fewer people get an initial appointment to approve treatment in the first place or those who have not been waiting as long but need operations more urgently are pushed aside.

The gap between extra resources and enhanced health-care outcomes explains why the second half of the government's strategy is so important. Ministers have sanctioned greater use of the private sector, so breaking the double armlock of state financing and provision. And more power is in theory being devolved to family doctors operating together with other initial points of contact for medical and social care through primary care trusts. At the start of this month, 302 PCTS came into operation in England. Replacing 95 health authorities, they will control three-quarters of the NHS budget by 2004.

In principle, this should drive better and more effective provision of health care as the PCTS act as more effective agents for their patients. That was what the Conservative government intended when it allowed family doctors to become fundholders which could purchase hospital treatments in the 1990s. But already there are doubts whether this will occur. The main worry is that the PCTs are too big to be effective purchasers: since the local PCT will be the only customer for the local hospital, it cannot threaten to withdraw its custom, so there is no incentive for hospitals to improve their performance.

The most serious difficulty for the government is that even after these big increases in funding, Britain will still have far fewer doctors per head than other countries. This disparity is much bigger than the funding gap between Britain and the rest. In effect, the cost of health in the past has been held down by limiting the number of new medical staff. “This is the most centrally controlled manpower in the country,” says Mr Harrison, who largely blames “the dead hand of the Treasury”.



All this means the government will face an uphill struggle in convincing the electorate that the extra money is delivering a decisive improvement in the NHS. Against this background, there is likely to be renewed interest in the experience of other models of health care. An obvious template is the system of social insurance funds, which operate in European countries. Individuals and their employers pay mandatory contributions into these funds, but people can choose which one they join. One well-rehearsed argument against this method of financing health care is that it is drives up business costs. But a reform strategy outlined by the Adam Smith Institute on April 12th suggests that this obstacle can be overcome by raising money from individuals' incomes from all sources, not just through pay packets. Eamonn Butler, the institute's director, says that the reform would create more choice and spur medical providers to do better.

The Conservative party has been taking a keen interest in the operation of social insurance funds in Europe. One problem in applying such a remedy is that the NHS is suffering from reform fatigue. There would be opposition from the medical profession to yet another upheaval. But if the spending bonanza fails to deliver a genuine improvement in the NHS, then a reform applying the best of the European model may start to look more enticing.

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BT

The Verwaayen ahead

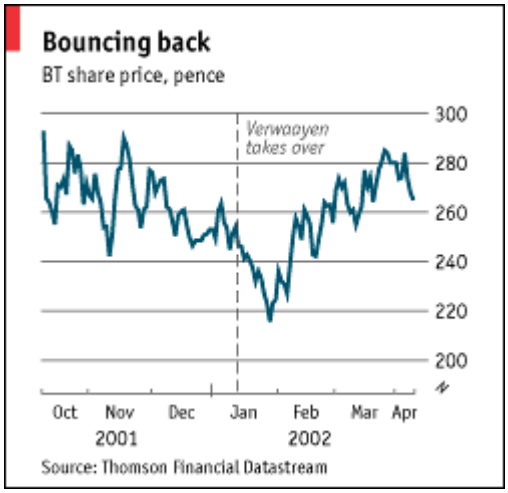
Apr 11th 2002
From The Economist print edition

BT's new boss is off to a flying start

AMAZING, but true. It is only a few weeks since BT's new boss, Ben Verwaayen, took over, but the firm already seems to have a renewed spring in its step. Its share price is up 22% since the end of January, and its strategy is rapidly coming into focus. On April 8th, Mr Verwaayen outlined his plans to cut costs, resume dividend payments and reduce BT's debt to below £10 billion over the next three years. With these plans, and several other initiatives, he seems to be off to a flying start.

Mr Verwaayen makes much of his enthusiasm for high speed, or "broadband", Internet access as an important source of future growth. Having already cut the price of broadband connections offered over its wires, BT this week announced a new, bare-bones broadband product that will be cheaper still. It involves some nifty footwork that may well raise eyebrows at Oftel, the communications regulator.

BT is expected to argue that Internet-service providers (such as AOL, Freeserve, and BT's Openworld division) offer a bundle of two separate things: access to the Internet and services on top, such as e-mail and web-page hosting. The new bare-bones product will simply provide Internet access, without any of the related services. Openworld is prevented by Oftel from cross-selling to BT's existing customers, but this restriction may not apply to its new access-only product; BT hopes to sign up 5m new broadband customers by 2006. Whatever Oftel may say, this sneaky new approach signals that BT has wisely decided to concentrate on access, rather than services or content.



Another element in Mr Verwaayen's new strategy is an admission that BT should concentrate on its home market. Having spun off its pan-European mobile arm, mmO2, and abandoned Concert, its international joint venture with AT&T, BT will also retreat from loss-making European markets. BT Ignite, which operates in Europe, will henceforth concentrate on large companies, and will no longer try to woo consumers or small businesses. And if that approach fails to yield results by next March, says Mr Verwaayen, he will abandon that too.

On the wireless front, BT announced a number of new initiatives on April 10th, including a plan to act as a reseller for mmO2. This will enable it to offer companies both fixed and wireless telephony with a single bill—though demand for "fixed-mobile convergence", which other firms have been unsuccessfully pushing for years, is uncertain. BT also plans to set up a wireless-Internet service based on Wi-Fi technology, which allows laptops within range of a small base station to connect to the Internet at high speeds.

Will all these plans enable Mr Verwaayen to meet his ambitious growth target of 6-8%? It is far too early to say. BT's moves have been welcomed as sensible, responsible and pragmatic, rather than revolutionary. "The market is saying 'we want proof of execution'," says Mike Williams, an analyst at Deutsche Bank.

Having cut its debt, shelved its international pretensions and, by spinning off its mobile arm, isolated itself from the uncertainties surrounding "third-generation" (3G) mobile networks, BT looks far healthier than its peers, France Telecom and Deutsche Telekom. Both firms are massively exposed to 3G, as is Vodafone, whose global-wireless strategy makes it the antithesis of BT. Andrew Heaney of Spectrum, a strategy consultancy, says Mr Verwaayen is off to a good start, and is undoubtedly an improvement over

his predecessor, Peter Bonfield. But now he must deliver on his promises.

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Royalty

Their finest hour

Apr 11th 2002
From The Economist print edition

The Queen Mother's funeral showed British royalty at its anachronistic best

REPUBLICANS would like to deny it, but the inconvenient truth is that lots of ordinary Britons really do seem to care about the death of the Queen Mother. Perhaps some were roused by the bogus controversies over protocol invented by the newspapers; maybe some were stirred more by duty than love. But that doesn't explain why a million faithful subjects, give or take a few lucky tourists, lined the casket's route from Westminster Abbey (where the funeral took place on April 9th) to Windsor Castle (where it was deposited in the family vault). A second death in the family is an inauspicious start to the Queen's Jubilee year, but this one has at least given the monarchy a consolatory bounce in the opinion polls.

Still, while sheer force of numbers affirms that the funeral was indeed “historic”, what caused all that commemoration—and what lessons the royal family ought to derive from it—remains obscure. The Queen Mother was not, after all, quite so loveably ordinary and accessible as some of her eulogies have suggested. She lived a life of near-Pharaonic luxury; the litany of her titles recited at the funeral confirmed just how extra-ordinary she was. As well as Princess Elizabeth and Queen Dowager, she was Lady of the Imperial Order of the Crown of India; Dame Grand Cross of the Most Excellent Order of the British Empire; and so on (and on).

One cynical explanation for the high turn-out is simply that Britons, like most people, enjoy a spectacle. This one began on April 5th, when the coffin was laid in state in the Palace of Westminster; it proceeded (amid fortuitously good weather) to the brief but photogenic vigil at the catafalque staged by the deceased's grandsons; and ended with the lavishly choreographed funeral itself. A bell tolled 101 times before the ceremony, and the Last Post sounded at the end of it. More foreign princes and heads of state attended than you can shake a Black Rod at.

A more patriotic view is that all this arcane pageantry somehow embodies the best of Britishness. But the Garter King of Arms no more epitomises modern Britain than, say, a safari is typically African or the outback is quintessentially Australian. It is a romantic national image to present to the world, but it is hardly characteristic—not least because, after many years of planning, the funeral was supremely well-organised. In contrast to the gaudiness of Princess Diana's obsequies, it was also elaborately medieval. Outside as well as inside the Abbey, central London seemed temporarily transported to an earlier decade: cars were banished, men in bowler hats and women with black ostrich feathers wrapped around their heads sauntered through St James's Park, and nearly everybody was white. A fly-past by a Lancaster bomber and two Spitfires revived one particularly gratifying memory.

So perhaps the lesson is that, rather than wanting their monarchy to emulate its modernised Scandinavian counterparts, the British public cherishes it most when it is most anachronistic. The Queen Mother herself practised a brand of majesty in which glimpses of personality never went further than that—yet she remained more popular than her ostentatiously human descendants. Likewise, although there were a few flashes of royal emotion last week, the reversion to austere formality on the big day itself—leaving observers scrambling to divine the feelings beneath the royal frowns—went down at least as well. Conversely, republicans must hope that the throng came not to praise but to bury a deferential era whose like they never expect to see again.

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Trade unions

Up yours, minister

Apr 11th 2002
From The Economist print edition

A battle between moderates and the hard left in the biggest public service union could prove crucial to Tony Blair's reform plans

THE days when militant trade union leaders could determine the fate of governments seemed to have ended when the Margaret Thatcher's Conservatives defeated the miners and curbed union power in the 1980s. But now, new leaders of public service unions seem to be bringing militancy back into fashion. And the outcome of the bitter election battle now raging in Britain's biggest civil service union may help determine whether Tony Blair succeeds or fails in his plan to reform public services.

The rise of the militants has been most visible in the rail unions. Mick Rix, the general secretary of ASLEF, the train drivers' union, is now a Labour Party member after a few years in the rather more left-wing Socialist Labour Party. Bob Crow was backed by the Trotskyite Socialist Alliance when he became general secretary of the RMT, the other main rail workers' union. In the past few months, both unions have run one- and two-day strikes which have hit rail commuters in the south-east and the north of England, north Wales and Scotland.

Mr Blair, however, is likely to be much more worried by current goings-on in the less well-known Public and Commercial Services union (PCS). The election row, complete with threats of lawsuits between warring factions, would be just a curious throwback to the 1970s were it not for the fact that its 288,000 membership includes half of the civil service.

That gives the PCS a pivotal role in determining the progress of Mr Blair's reform agenda. But what troubles Downing Street is that Mark Serwotka, who is due to become the union's general secretary and leader in June, cheerfully describes himself as being far left and a member of the Socialist Alliance.

The election of Mr Serwotka, a hitherto unknown benefits agency worker and fast-talking union official in Leeds, was a big surprise. It resulted from factional fallings-out between incumbent PCS officials, the unravelling of various backstairs deals and slick use of Internet and e-mail campaigning by the Trotskyites which gained Mr Serwotka just under 60% of the members' votes.

This is odd, because PCS members are not left-wing. Only a handful of the 46 people elected to the union's national executive committee are Trotskyite. The rest are mainly centrist Labour Party types, but they are divided into two warring factions calling themselves Moderates and Membership First. They have their roots in the different unions which merged in 1998 to form the PCS. This, the Socialist Alliance triumphantly proclaims on its website, has enabled the Trotskyites to hold the balance of power. The Moderates allege that Membership First's voting record shows they are not much more than a bunch of Trots in disguise.

Mr Blair's main hope that the left may not consolidate its hold hangs on the outcome of the biannual national executive committee elections, due on April 25th. If the Moderates win, the plan is to keep Barry Reamsbottom, the outgoing general secretary and a Moderate, in the job until 2004 and sideline Mr Serwotka.

The campaign is acrimonious. Moira Campbell, the Moderate candidate for president, says, immoderately, that her two rivals have a “record of failure and botched leadership.” Les Priestley, the Membership First presidential hopeful, says the choice is between him and “a narrow leadership that puts its extreme views first.” Janice Godrich, the Socialist Alliance candidate, merely snipes that under her, the union will not be “an apologist for New Labour or any other government.”

A noisy union executive meeting on April 10th stoked tempers further. Earlier this week, every member

got a letter from Mr Serotka accusing the Moderates of unfair electioneering. The Moderates hit back that the letter was itself unfair electioneering from someone who ought to be impartial. The meeting adjourned for a day while all sides consulted lawyers.

Whatever the election result (and it may well end up being re-fought in the courts), it does not bode well for the government's reform agenda. Mr Serotka says that union policy is not to oppose change. “We differ in that we believe it can be done by public servants, we don't need privatisation or private sector management,” he maintains. This is not strictly true. The PCS organised a strike against the government's plan to modernise benefits and employment work by combining the two sets of staff in single offices.

If Mr Blair wants to make the public services work better, he needs more change. But if the hard left runs the PCS, more change is likely to mean more resistance from the union that represents half the civil service.

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Railways

Regulator riled

Apr 11th 2002
From The Economist print edition

The rail regulator is proving a dangerous enemy to the government

Get article background

FROM the government's point of view, there should be one happy consequence of the renationalisation of the railways: the renationalisation of control in the hands of the politicians. There is, however, an obstacle—Tom Winsor, the rail regulator. Mr Winsor was granted huge powers over the network under the privatised structure, and he is not going to give them up quietly.

Mr Winsor determines how much public money is spent on the rail network. He sets the amounts that Railtrack, the network operator that the government put into administration six months ago, can charge train operating companies for access to the network. Since the train operators can recoup any increase from the government, the Treasury has to pay whatever Mr Winsor decrees.

In his last review, in October 2000, the regulator decided that Railtrack needed an additional £15 billion over the next five years—an increase of 50%. Railtrack's fate means that its successor is certain to get another sharp rise in access charges and therefore public spending. This threat is concentrating ministerial minds.

The government's options are limited, and none are attractive. Firing Mr Winsor, or forcing him to resign, would provoke a huge row. Introducing primary legislation to redefine Mr Winsor's role would also lead to a fight. “The independence of the regulator is not a disposable commodity,” says Mr Winsor. The City wouldn't like it, either. Standard & Poor's, a credit-rating company, warned recently that the government's intention to secure an investment-grade rating for Railtrack's successor would require “an effective regulation system”. Watering down the regime could thus push up the cost of borrowing.

Reaching an accommodation with Mr Winsor will not be easy. He thinks the decision to put Railtrack into administration was badly handled, and is said to be critical of the failure to come up with a clear strategy for the railways.

To complicate matters, Mr Winsor is also a central figure in the court action over whether or not Railtrack was wrongly forced into administration. He has already told the House of Commons transport select committee that Stephen Byers, the transport secretary, in effect threatened him with legislation to remove his powers to intervene in the Railtrack crisis. That directly contradicts Mr Byers's claim to parliament that he issued no such threat.

More is likely to come out if the court orders full disclosure, including details of the panicky atmosphere in which decisions were made as Railtrack collapsed. One meeting between the transport secretary and the prime minister is said to have ended with a furious outburst from Tony Blair: “I don't mind what you do with bloody Railtrack as long as you don't renationalise it.” There are also allegations that material facts were not disclosed to the court hearing the receivership application. The most serious is that the court was not informed that Mr Winsor was still prepared to conduct a review of Railtrack's finances, even though the government was threatening to emasculate him if he tried. That would support the claim that Railtrack was not necessarily insolvent when ministers forced it into administration.

So far the government has paid up £500m in compensation to Railtrack's shareholders. That appears to

have bought off the institutions, but leaders of 20,000 individual shareholders are meeting with lawyers next week to press for more. To avoid legal action, ministers may have to pay up again. But then protecting one's reputation never comes cheap.

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Seasonal labour

Slim pickings

Apr 11th 2002 | TRURO, CORNWALL
From The Economist print edition

Some of the further ripples of immigration policy

WILLIAM WORDSWORTH reckoned he once saw 10,000 daffodils at a glance. “I gazed—and gazed—but little thought”, the awe-struck bard recalled, “What wealth the show to me had brought.” Ask a Cornish flower grower what the sight of 10,000 blooming daffodils brings to mind and you can be pretty sure it won't be “wealth”. Financial ruin, more likely.

About a third of the daffodils grown in Cornwall this year never went to market. Along with an unusually mild winter which caught growers on the hop, the tight local labour market and tougher immigration policies are largely to blame.

Finding people willing to stand around in a rainy Cornish field all day, plucking flowers from the ground for less than a penny per stem is never going to be easy. Seasonal flower picking in Britain has traditionally been the privilege of hard-up eastern European students. But police crackdowns on illegal immigrants have made many farmers wary of employing foreigners. Not wanting to fall foul of the law, they are now turning away potential workers whom they might once have taken on.

Jim Hosking, a daffodil farmer, has found that as unemployment has dropped in Cornwall, the local labour pool has dried up. “In particular, fewer women are doing that sort of work. Twenty years ago, more than 50% of daffodil pickers would have been women,” he says. Picking daffodils is a taxing business for anyone. “It's a lot of hard work, with your bum in the air all day,” another old hand explains. As a waiter or bartender, a light pay packet can at least be supplemented by tips.

The problem has grown more acute as demand for short-term labour has increased. So-called ornamental crops are a popular alternative to conventional food crops. Mr Hosking thinks the number of acres being turned over to daffodils in Cornwall may have risen by as much as 25% in the past decade.

Booting out visaless labourers and rumbling people-smugglers is good for the circulation of tabloid newspapers, but it ignores the important role foreign labour plays in the domestic economy. At present, 15,200 youngsters are allowed into the country each year under the Seasonal Agricultural Workers' Scheme (SAWS). This will increase to 20,200 over the next two years, but Harvey Guntrip, who is investigating the short-term labour situation for the National Farmers' Union, thinks that is nowhere near enough to meet the demand. Anyway, SAWS operates only between May and November, which doesn't help all those outdoor daffodil growers, whose season starts in January and ends in March.

Unless regulations are relaxed to allow more short-term workers into Britain, full-time British jobs will be put at risk and the demand for illegal labour will continue to grow. High VAT, labour and utility costs, along with the strong pound (which makes imported flowers cheap), further handicap British farmers.

The government is mindful of all this. A government report on the future of food and farming, published in January, recommends raising the SAWS quota to 50,000, and a White Paper on immigration and asylum gestures towards increased flexibility and plans to extend SAWS.

Overall, the horticultural industry is booming. The market in cut flowers is growing at a rate of 10% a year. It is worth about £2 billion—roughly the same as the retail music industry. With a few tweaks to labour and farming policies, it could be worth a good deal more.

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Bagehot

Tony's act of faith

Apr 11th 2002
From The Economist print edition

Tony Blair is risking his credibility on an idea of America that is bound to be disappointed

REFERRING to “the indescribable agony and horror of recent events”, the prime minister went on to deliver a deeply-felt plea for the president to exercise caution: “The sense of outrage this brings can beget dangerous counsels, impatient and exasperated demands to hit back in ways that would widen and not end the war. Mr President, the hardest part of statesmanship is to show restraint in the face of that exasperation, all those understandable demands for actions, which, however immediately satisfying, could have incalculable effects—effects indeed for the whole world.”

Not, of course, Tony Blair during his weekend with President Bush at his home in Crawford, Texas, but a British prime minister of a different era. The occasion was the visit of Harold Wilson to Washington in February 1968. A “deeply troubled” President Johnson was still reeling from the effects of the Vietcong's Tet offensive. Before leaving London for Andrews Air Force Base, Mr Wilson had received a missive from 90 Labour MPs demanding an end to Britain's backing for America's policy in Vietnam. Despite frequent requests from Johnson for even a token British force to fight, as it were, “shoulder-to-shoulder” with American troops in Vietnam, Wilson had always resisted. The rather feeble moral support he had offered instead caused him more than enough political difficulties at home.

Compare and contrast with Mr Blair's speech to an invited audience at the Bush Presidential Library about facing the challenges of the post-September 11th world. The British prime minister ended with these words: “It comes at a price for us too. It means we don't shirk our responsibility. It means that when America is fighting for those values, then, however tough, we fight with her. No grandstanding, no offering implausible and impractical advice from the comfort of the touchline, no wishing away the hard choices...on terrorism and WMD [weapons of mass destruction] or making peace in the Middle East, but working together, side by side.” Mr Blair's meaning was clear: whatever Mr Bush decides he must do to effect “regime change” in Iraq, Britain will be with him.

Many people are bewildered by Mr Blair's insistence on talking up Britain's readiness to sign up for a military adventure that still has no definition and may not even happen. The vast majority of his own party is certainly puzzled (stupefied might be a more accurate description). European leaders (with the exception of Italy's Silvio Berlusconi), although accustomed to what they see as the peculiarities of the “special relationship”, express complete mystification that the British prime minister is willing to give his support so freely. Although the Tories find it politically convenient to egg on the warrior in Mr Blair, even they marvel at his lack of caution.

It is hard to think of any parallel. Margaret Thatcher may have been willing to share Ronald Reagan's Manichean view of the Soviet Union, but, while she heaped praise on him in public, she was frequently critical of him in private, particularly when she thought Britain's national interest was in jeopardy. She strongly opposed the deep cuts in strategic nuclear missiles that Mr Reagan got excited about in Reykjavik and she was equally unconvinced by the president's Star Wars programme because she feared that both initiatives might undermine Britain's nuclear deterrent. During the Falklands war, she was infuriated by what she saw as Mr Reagan's encouragement of Alexander Haig and Jeane Kirkpatrick's attempts to get General Galtieri off the hook. Despite her admiration of America and ideological sympathy for Mr Reagan, it never occurred to her that British and American interests were identical.

Good deeds, bad world

Mr Blair would reply that the events of September 11th created an entirely different context for shared action because the nature of the threat rendered redundant traditional ideas of national interest. However, he is actually going a good deal further even than that. He is convinced that American power must be harnessed as a force for good in the world and that it has uniquely fallen to him be the agent that pushes America towards constructive engagement in support of liberal democratic values and decency. This is undoubtedly vainglorious, but not in the way that many of his detractors allege. Mr Blair believes that quite apart from the desirability for its own sake of getting rid of Saddam Hussein and his beastly weapons, demonstrating what his critics take to be unquestioning loyalty to America now is part of the price that must be paid for a better world.

In this, the prime minister is, above all, following his (attractive) instincts rather than more sober calculation. But there is a real danger that he will end up looking silly. When Mr Blair talked fervently in the Bush Library about bringing “hope to Africa” through “sustained focus, effort and engagement”, was he speaking for anyone else in the room? His hosts could not have been warmer or more effusive, but people hear only the things they want to. He will find it uphill work to convince his own parliamentary colleagues, many of them virulently anti-American, some of them quasi-pacifists and probably most of them one-time unilateral nuclear disarmers, that marching to war with the Pentagon's Dr Strangeloves is the way to “a stable world based on prosperity and justice for all”. Still, most of them will fall queasily into line when the time comes because they know Saddam Hussein is a bad and dangerous man.

Mr Wilson and Mrs Thatcher could hardly have been more different, but both based their decisions about whether to go to war or not on a clear idea of national interest. The arguments for Britain playing its part in getting rid of Saddam Hussein are compelling enough on their own. They don't need to be dressed up in a vision of some shining new world order that lives mainly in Mr Blair's well-meaning imagination.

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Power in your hand

Apr 11th 2002
From The Economist print edition

The digital era is supposed to revolutionise television. The way people use it will change, argues Sophie Pedder, but television will remain mainly a vehicle for mass entertainment

THE Californian sun is searing and the palm trees are tilting in the breeze, but the workers on the back lot are touching up icicles and snowdrifts. This is the set of “ER”, a medical drama for television, and the far corner of the lot at Warner Brothers is doubling for Chicago. Just across the way, past the peanut-butter-coloured walls of the vast studio sound-stages, beckons the dazzling white entrance to the White House. Off the set, an improbably tanned actor, Rob Lowe, is shooting basketballs into a hoop. This set is Washington, DC, home to “The West Wing”, a drama about an American president. Round the corner, they are dressing the interior set for “Friends”, another hugely successful TV show, set in New York.

These are just three of America's most popular TV shows, set in three different corners of the country and exported around the globe. But they are all shot by one studio, on one lot, in the shadow of the Hollywood Hills. The bulk of the stuff that fills prime-time television screens in America is filmed between two valleys in Los Angeles, and is in the grip of a handful of production companies belonging to large media conglomerates. Over the past decade the country's television industry has enjoyed a bonanza that has brought millions of dollars, an ice-cool attitude and an air of entitlement to this West Coast city. The men in black T-shirts picking at salads in the smarter Beverly Hills restaurants—writers, producers, TV executives, actors and agents—have been the beneficiaries of the most sustained boom anyone in the business can recall. Movies may still have the edge for glamour, but as a business television dwarfs feature films, even in America: with a total turnover of $100 billion, it is around six times bigger.

Undimmed allure

Despite the formidable array of new gadgets—electronic games, computers, portable MP3-players, mobile telephony—that is now rivalling the television set for attention, the flickering image on the 75-year-old box still captivates people. The average American spends four hours a day watching television, and keeps the set turned on for longer than that; the average German, Briton and Frenchman spends over three hours. Watching TV was the single most popular way to spend an evening, Americans said in a recent Gallup poll: three times more so than seeing their friends. And according to research by MTV, a music-video channel owned by Viacom, an American media giant, even the widespread use of the Internet has not eaten significantly into TV time. “In most cases,” says Betsy Frank, head of research and planning at MTV Networks, “what MTV viewers do less of, now that they are spending more time on the Internet, is sleeping, talking and personal hygiene.”

Television continues to enjoy a robust hold on the popular imagination. There are few social phenomena, pernicious or benign, for which television is not being held responsible by someone or other: the stifling

of children's imagination, the increase in obesity, the decline of the family meal, the erosion of morality, the vulgarisation of taste, the worship of celebrity, the promotion of violence, the undermining of authority, the maintenance of American cultural hegemony—and the spread of democracy.

At the height of the dotcom frenzy, which helped feed the television boom, a broader revolution was promised for the humble TV set itself. Just as the computer and mobile telephone were to be transformed into devices for receiving and consuming entertainment, the television was to become an all-purpose screen through which people would engage in a dizzying array of multimedia experiences. Viewers would treat the TV like the PC: indeed, the two devices would merge into one. From the ease of their living-room, they would shop for groceries, choose their holidays, browse a department store, educate their children, send e-mails, play games, place a bet, even pick their own ending to an episode of a favourite soap.

Thanks to the flush times, the cable and satellite-television companies and broadcasters have spent huge amounts of money on installing and upgrading their systems to deliver digital multi-channel television into people's homes. Governments have egged them on, because the switch to digital frees up part of the spectrum, which they can then auction for other purposes. Digital delivery, which provides far more bandwidth than old-fashioned analogue distribution, not only provides better picture quality, it also allows more stuff to be squeezed down the pipes—and for signals to be sent back from the living-room. For viewers, this “interactivity” means they can “talk” to their TV sets just as they can interact with their computers and the Internet.

All this promises a wholly new television experience, argue the enthusiasts, where people will call up what they want, when they want. Ultimately, this could mean that the mass experience of sitting down in front of the box to watch scheduled shows all at the same time is over. Audiences will fragment into tiny pieces, and TV channels will become narrow specialists to serve them. Stamp collectors will watch Philatelist TV; pot-holers the Cave Channel. Indeed, viewers will not need to bother with channels at all, but will simply download programmes from a vast menu.

“Erstwhile couch potatoes will no longer settle for a few score lowest-common-denominator programmes; they will range databases around the globe to pick out their first choice of materials,” wrote George Gilder, a technology guru, back in 1994. “The entire TV culture will give way to a radically different teleputer culture. The result will resemble the current arrays of thousands of specialised books and magazines far more than a few TV shows oriented to the morbid fears and prurient interests of a mass audience.”

Even now, technology companies and manufacturers are working on “home entertainment gateways”, devices that will enable viewers to do away not only with their computers, but their CD-players, DVD-players and video-recorders too. Powerful voices in the media believe that a new era in television is on its way. “Everything on AOL is on demand,” says Jerry Levin, head of AOL Time Warner, America's biggest media conglomerate. “Now we have the infrastructure to do the same with TV.”

Open the box

In these harsher economic times, however, the television industry is having to reconsider some of these plans. On the production lots of Los Angeles, parsimony is now battling profligacy. Television executives are breathing down the necks of creative types to keep budgets down. Car chases and helicopter scenes are giving way to more dialogue; guest stars to unknown actors. But the re-evaluation that is taking place within the industry ranges far more broadly than this. Technology may be promising endless possibilities for that frumpy old box, but how many of them do people really want to use? And how many of them will they pay for?

This survey will look at where television is going, and who stands to benefit. It will concentrate on America and Western Europe, because together they account for the vast majority of the world's television market, and others are likely to follow where they lead. The survey will argue that, despite all those costly efforts to transform it into an all-purpose multimedia device, the television set will remain primarily a screen to keep people entertained. Although the digital era will vastly widen the choice of entertainment on TV, it will leave its potency as a mass medium undiminished. It will, however, overturn the way television is consumed.

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Entertain me

Apr 11th 2002
From The Economist print edition

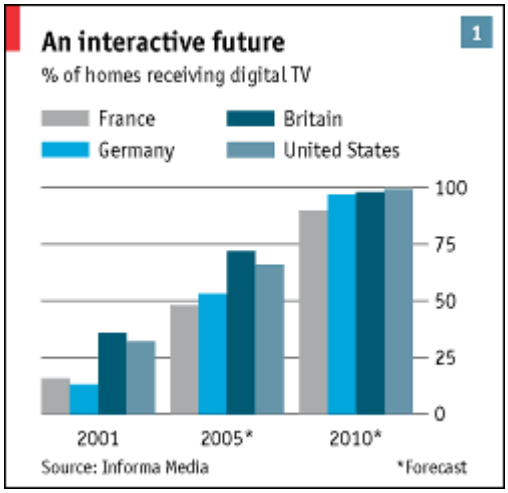
Television viewers just want to have fun

TO WITNESS the cutting edge of interactive digital-television technology, travel to the London suburb of Hounslow. Squatting beside the Heathrow flight path is a group of drab units, the decidedly unglamorous home of BSkyB. Controlled by Rupert Murdoch's News Corp, BSkyB distributes programmes by satellite. It is not only Britain's biggest pay-TV operator by far, but also the first television operator in the world to have switched its service, beamed to over 5.7m subscribers, completely from analogue to digital. Along with Canal Satellite, the French satellite-television operator, and the BBC, it is the leading test-bed of television interactivity. Even American TV bosses reckon that in interactive TV the Europeans are 18 months ahead of the United States.

From its “digital play-out centre” in Hounslow, BSkyB beams out more than 250 digital channels. Inside, editors huddle in front of banks of television screens, feeding out the parallel streams of pictures from which the interactive viewer will select. If you are watching Sky News, for example, you can press a button to divide the picture into eight screens, each showing a different news item. Fed up with all that serious foreign news? Pick the “Showbiz” stream, enlarge it to fill the screen, and check out whether Brad and Jennifer are going to have a baby. Still not pregnant? Back to the eight screens, and select another to watch the weather forecast for tomorrow. Sky Sports, meanwhile, is showing a live premiership football match. Missed that earlier goal? Zap to the screen showing first-half highlights. Quick, the horseracing is about to start. Zap to the betting page and place a punt.

It is not implausible to think that Europeans might want to make their television sets the centre of their interactive experience. For one thing, they spend up to eight times longer watching TV than they do sitting in front of a PC. And almost all Europeans have a television set, whereas only a third of them—compared with over half of Americans—are wired up to the Internet. Above all, the TV set is a familiar old piece of living-room furniture: even the technically challenged know how to switch it on.

The television operators certainly seem to believe in interactivity. Revenues from interactive TV in America alone could more than treble to $11.2 billion between now and 2004, according to UBS Warburg, a bank. This has been one reason for the race to upgrade distribution systems, whether cable pipes, turbo-charged telephone lines or the set-top boxes that decode the television signals beamed down by satellites. By 2005, over 90m Europeans (39% of all TV owners) and 70m Americans (two-thirds of TV owners) will have digital television, according to Informa Media, a research group (see chart 1).



Yet constructing the infrastructure is turning out to be vastly expensive. Some operators, including BskyB, have been giving away free the digital set-top boxes for which customers used to pay $300-400. All this is a huge bet on a new era in television, not least because the TV operators must also bet on what sort of set-top box to install and which operating system it should use. There is no industry standard, and each system, whether Microsoft TV, Liberate, OpenTV or Canal Plus's MediaHighway, is incompatible with the others.

All this is taking its toll. BSkyB has not made a net profit for three-and-a-half years—ever since it decided to give away digital set-top boxes. Canal Plus, Europe's leading pay-TV company and part of Vivendi Universal, another media giant, is also in the red. Europe's cable operators have piled up huge debts to pay for installation and upgrading. Is there any chance of this investment paying off?

Skinning the couch potato

Four years after Sky began to experiment with interactivity, the features that generate enthusiasm now bear little relation to those that prompted the original excitement. “Some of the applications developed a few years ago now don't seem suitable for TV,” concedes Jon Florsheim, head of interactive at Sky. The biggest disappointment has been “t-commerce”, or shopping. Although people often tell pollsters that they would like to shop on the telly, few actually do. They might order a pizza, but nobody wants to take out a mortgage or buy life insurance on the TV. BSkyB has now merged Open, a shopping channel it launched in 1999, into its general interactive division. It seems clear that TV viewers slumped in front of their box do not want to take decisions. They want to be entertained.

This lesson is beginning to inform the way TV people are thinking about interactivity. It is not that viewers want to do nothing but sit and stare, but that if they are to be persuaded to pick up their remote control, it has to be fun. This can be broadly defined. Betting has turned out to be the biggest single generator of revenues for both BSkyB and Canal Satellite. Of the £91m of revenue BSkyB pulled in from interactive TV in the second half of 2001, 53% came from betting. Live betting on Equidia, a French horse-racing channel carried by Canal Satellite, generates over *euro*150,000 a day for the PMU, the official French betting operator. Punters can pay simply by inserting their debit cards into the set-top box. Games are going the same way. Already, people plug their Sony Playstation2 or Xbox into the TV to play games. Digital-TV operators now offer viewers “pay-per-play” games on the box too. Games work on TV because they are fun. At one point last year, PlayJam, a British-based games channel, was the eighth most popular commercial channel on Sky digital.

Perhaps the most unexpected success with interactivity has been something that, the purists sniff, is not the real thing at all: telephone voting during a TV show. In the recent final of the British version of “Pop Idol”, a TV talent contest in which the viewers are the judges, nearly 9m votes came in—more than the number cast by young people at last year's general election, as Britain's baffled Electoral Commission pointed out. The ballot was carried out by telephone, but Sky has already introduced voting by remote control, which counts as genuine interactivity. The real thing or not, as Scott Gronmark, head of BBC interactive television, puts it, “For the viewer, interactivity is simply choice on a screen.”

This does not mean that in future all TV shows will require viewers to sit there clasping their remote controls. For one thing, interactivity does not fit with all kinds of programme. The idea that drama plots, for instance, would be determined from the living-room sofa has been quietly shelved. Storytelling is best done by storytellers. And there will always be plenty of viewers for whom interactivity is not worth the effort. “TV is something you do when you don't want to do anything,” says David Poltrack, head of research at CBS, an American network. The more complicated the activity, the lower the chance that anybody will bother. In a recent survey for Britain's Independent Television Commission, interactive TV was rated the fourth most difficult device to use, only two places behind flying an aeroplane. And even in an interactive world, people will watch only if the programme is good. Peter Bazalgette, head of the British division of Endemol, the Netherlands-based company which gave the world “Big Brother”, puts it this way: “A show can drive interactivity, but only if the proposition is compelling enough.”

Sit back and enjoy it

Features that are fun, and that you can charge viewers for: betting, playing games and eliminating contestants. Features that are useful and might discourage people from cancelling their subscriptions: selecting news streams or sports highlights. Those, in sum, are what seems to work in interactive television, and then only some of the time. The rest—from shopping to following a single player during a football match—seem clumsy, distracting or gimmicky. This hardly adds up to a revolution in the television experience.

“The majority of people want to sit back and just passively enjoy TV,” says Jeff Zucker, head of entertainment at NBC, another American network. So passively, in fact, that the TV set blinking away in the corner sometimes hardly gets noticed. For young people raised on the Internet, the TV can be like wallpaper. Tracking studies by MTV show that young viewers tend to watch TV while they are also doing other things: phoning their friends, surfing the net, playing an electronic game. Recent research by the Henley Centre, a British market-research body, found that this trend is spreading in Europe too: TV, it concluded, is becoming an “ambient” experience. In one log book filled in as part of this study, a woman recorded that she was watching TV all evening—and, in sequence, eating dinner with the family, putting her children to bed and then going online.

The weakest link

If the TV set will remain predominantly a centre of fun and entertainment, where does that leave the “convergence” argument? The most likely answer is that homes will continue to have different devices for different functions, even if at some stage they become linked, probably wirelessly. People will use a computer to search, browse, learn and communicate. They will use the convenience and privacy of a mobile device to make calls and send e-mails and text messages. And they will turn to the TV screen for entertainment and company. “From a passive entertainment standpoint, the TV will always be dominant,” says Yair Landau, head of Sony Pictures Digital Entertainment: “From a processing, interactive standpoint, it will be the PC or game consoles.”

People do not want one machine to do everything. Computers can send faxes, but most people use the fax machine. Digital TV sets can send e-mails, but most people use the computer. Which teenage girl wants to scroll through her e-mails on the TV screen, with the whole family gawping? Many of the companies that have built their offering around the idea of convergence have struggled. Quiero, a Spanish digital pay-TV broadcaster that allows viewers to surf the net on the TV while still watching a show in a small box on the screen, was recently put up for sale after failing to sign up enough customers. Perhaps subscribers to the convergence theory should study history more closely. They will find that when the domestic electric motor was first introduced into the home, users were expected to buy only one of these costly motors, which they would hook up to the electric mixer, the fan, the grinder and so forth as required. Today, that idea looks quaint.

Judging by the experience so far, interactive television by itself is not going to justify the huge investment needed to provide it—though this may be the price the television operators have to pay simply to stay in the game. What might make it more worthwhile, though, is a quite different form of interactivity: finding and selecting the show to watch, when you want to watch it. Call it what you like—television-on-demand, personalised TV, customised TV—it will make a much bigger difference to the way television is experienced than most of the interactivity tried so far.

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About sponsorship

Big brother is you, watching

Apr 11th 2002
From The Economist print edition

Forget the schedules: build your own

ONE of the curiosities about the old-fashioned video-cassette recorder (VCR) is how appallingly difficult it is to use. You record the wrong channel. The date is out by a day. You forget to use the 24-hour clock, then the clocks go on to summer time, and you miss the show anyway. Even if you manage to record it, rewinding to the right place takes forever. And then the unlabelled cassette gets lost in a pile. The VCR is a standard piece of domestic equipment: 90% of American households have one. Yet Americans spend only 4% of their television-viewing time watching shows they have recorded. In other words, people have given up trying to tape TV programmes. Instead, they use their VCRs—or, these days, their DVD-players—for films they have rented from the video shop.

When the VCR was first introduced in the early 1980s, it seemed to hold out the promise of liberating viewers from the whims of TV schedulers. In practice, it has not altered viewing habits much. But what if recording from the TV was genuinely simple, available at the touch of a remote control from a menu? What if this menu enabled the viewer to call up far more than what is scheduled for transmission each week: libraries of films, old series of favourite shows, even specialist programmes that never make it on to the schedule, say cooking demonstrations or aerobics classes? And what if this menu helped you to find what you want by dividing up programmes into genres, or even recorded shows it had selected for you because they fit your tastes?

The luxury of choice

This is what television-on-demand promises, and digital delivers. In essence, operators can supply TV-on-demand in two ways. Cable or telephone operators will store all the programmes in a central server linked up to lots of homes, and zap one down the line to your living-room only when you summon it. Satellite operators will zap lots of programmes into a powerful storage device inside your set-top box, which will jump on to your screen only when you select them. Either way, the result for the TV viewer is much the same: what you want, when you want it.

The device that completes the experience is the personal video recorder (PVR), a digital recording device that stores TV programmes as computer files on a hard disk, with no need for video tape. This makes it simple even for the technophobe to find and record programmes and compile a list of favourite channels or themes. It also enables the smart box to remember your choices and make suggestions to you. Above all, it frees the viewer from the shackles of the TV schedule. “The PVR is delivering everything the VCR promised but could never deliver,” says Nigel Walley of Decipher, a media consultancy.

Ah, the sceptics reply, but look at the poor take-up rates. TiVo, one of the pioneers of this technology, has only some 380,000 subscribers in America—a drop in the ocean. Only about 11,000 people have so far bought Sky Plus, the new set-top box launched by BskyB last year, which incorporates a PVR into the device that decodes the satellite-television signal. But this technology is bound to spread, chiefly because it delivers something genuinely useful for the TV viewer.

There are two other factors propelling the PVR forward. The first is that TV operators, like Sky, are now installing it inside the next-generation set-top box.

TiVo has just done a deal with DirecTV, America's biggest satellite-TV operator, to design the PVR technology for its new set-top box. Later this year, Canal Satellite is launching its new set-top box, complete with its own built-in PVR. “When the PVR is integrated by the operators, then the technology will take off,” says François Carayol, head of technology and distribution at Canal Plus, “In time, even high-end television manufacturers will build in a PVR.”

Now on demand

Second, the TV operators themselves are in a hurry to set up television-on-demand because of the proliferation of technology on the Internet that allows illegal file-swapping. The movie studios were given a fright by what happened to the music industry when Napster and other file-sharing networks suddenly made it easy to swap recorded music carried in computer files. This is more difficult to do with filmed entertainment because video takes up more bandwidth than audio, and so, for now, downloads far more slowly. All the same, file-sharing of movies is already beginning to spread on the Internet.

If the movie industry is to thwart this, it needs to offer a legal alternative. As Peter Chernin, Mr Murdoch's right-hand man at News Corp, puts it, “The single biggest solution is to make movies and TV available conveniently and at an appropriate price.” This is why, after prickly negotiations, the five big movie studios have set up movielink.com, a films-on-demand service on the Internet which should be launched later this year. Naturally, the pay-TV operators want a slice of this business too, and are haggling with the content providers to work out a system for sharing revenues generated from video-on-demand. Even if they have to run their services at a loss to start with, they cannot afford to allow Internet-based rivals to suck up the business.

For now, TV-on-demand is still embryonic. Cable operators in America are running pilots of the service. The idea will be not just to call up a movie on demand, but to download, say, an entire series of “Sex and the City” or “Friends”, to watch whenever you like. And more: to select games, education, pornography, music. “This is not a niche,” argues Christopher Dixon at UBS Warburg. “The idea of customised video programming is the de facto standard to which we are all moving.” By 2005, PVRs will be in 13% of American homes and 7% of European ones, according to Informa Media. By the end of the decade, they will be as common as the VCR is today. Barry Diller, head of Vivendi Universal Entertainment, calls it “the most profound change taking place in TV”.

Yet given the vast cost of installing the storage devices needed to hold all this programming, not to mention the rights to all those movies and TV series, how can an operator make it pay? It seems a terribly complicated and expensive way to save people a trip to the video store.

The most promising answer is the inelegantly named “S-VOD”: subscription video-on-demand. Rather than “pay per view”, which has been a disappointment and works only for truly compelling content, the viewer subscribes to, say, a whole series of “The Sopranos”. This is how Video Networks, a TV-on-demand service in London, sells its TV series. John Frelinghuysen, at Booz Allen, a consultancy, likens it to a football season ticket. “S-VOD”, he says, “is the key to attractive economics for video-on-demand.”

Home Box Office (HBO), the premium cable channel behind such series as “Sex and the City”, “The Sopranos” and “Six Feet Under”, is running pilots of its new HBO-on-demand service in Austin, Columbia, Cincinnati, Cleveland and Long Island. For an extra $5-10 on top of the monthly HBO bill, subscribers can select any HBO series to watch when they like. Industry observers say that demand has been overwhelming. “The most compelling feature of interactive TV will be the ability to select what you watch and when you watch it,” says Jeff Bewkes, head of HBO. If it works, it may prove that viewers are ready to pay even more for their TV—but only if the content is good enough.

Skipping the ads

The PVR is forcing not only the TV operators and the movie industry to rethink their business models, but the broadcasters as well. This is because the device makes it child's play to fast-forward through the advertising breaks. Indeed, the latest ReplayTV model, a PVR made by SONICblue, enables the viewer to skip the commercial breaks automatically. Mike Ramsay, co-founder of TiVo, says that “80% of viewers will confess that they skip ads regularly.” If most people end up watching most of their TV on a PVR, the revenue base for broadcasters and ad-supported cable channels could be undermined. Indeed, last November, TV companies and the big Hollywood studios filed a series of lawsuits against ReplayTV, to keep the latest model out of the shops.

But is it advertising that is in peril, or just bad advertising? As the PVR spreads, advertisers will need to be more imaginative about the way they grab the viewer's attention, and not rely so heavily on the old-fashioned 30-second spot. Research carried out by TiVo during this year's Super Bowl showed that viewers requested more instant replays of the ads than of the game itself.

Some advertisers, such as Ford, are experimenting with TV co-production. Others are hoping to turn the PVR to their advantage by using competitions and prizes to tempt people into watching interactive commercials. Sponsorship of TV shows is also becoming more common: Pizza Hut, for instance, sponsors “Everybody Loves Raymond” on CBS; Volvo sponsors “ER” on Britain's Channel Four. In many ways, this is a return to the way TV programmes were financed in the 1950s: “The Colgate Comedy Hour”, “The Gillette Cavalcade of Sports”, “Texaco Star Theatre”. As Mr Dixon at UBS Warburg puts it: “People who say ad-supported TV is over just don't get it.”

The on-demand age will also force advertisers to find new ways of reaching viewers. If they are not watching the ad breaks, where are their eyes fixed? One answer is the electronic TV programme guide set up by the pay-TV or PVR operator. It divides up programmes into genres, such as movies, sport and children's programmes, to help manage the chaotic array of channels. Regulators in some countries limit the commercial use of this page. At present, many such pages—apart from the elegant mosaic carried by Canal Satellite—look pretty clunky, but they are bound to improve, and soon could become a prime piece of real estate. Booz Allen's experience in America suggests that, in homes with 150 channels, the electronic programme guide itself is one of the ten most-watched channels. Viewers return to that page over and over again: on average, 80 times during the day.

Near-infinite choice at the touch of a button: the idea is as tantalising as it is scary. But if everybody can do their own thing, does this mean that the mass experience of television that still persists, both in Europe and to a lesser extent in America, is destined for extinction?

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To infinity and beyond

Apr 11th 2002
From The Economist print edition

Viewers want the same old things as ever—but at the touch of a button

A CRISP, wintry New York morning. Dawn has barely broken and the mercury is low, but a crowd is already gathering outside the NBC building, at the foot of the Rockefeller Centre. Many of these onlookers clasp hand-made placards in their mittens, from which scream out, in felt-pen letters, the names of their home towns: Ishpeming, Michigan! Steubenville, Ohio! Phoenix, Arizona! They have come from all corners of America, and they have braved the dark, the cold and the crowds because they want to be on network TV. This morning, as every weekday morning, NBC is broadcasting regular sections of the "Today" show from the street outside its New York studio. It has been going for 50 years. "We came because everybody watches the 'Today' show," explains one woman from Houston, pressed up against the barricades. "It's an American tradition."

The end of the mass audience? 3

Top five TV shows in America

1980-81

Rank	Title	Share*	Rating†
1	Dallas (CBS)	31.2	52
2	60 Minutes (CBS)	26.8	42
3	Dukes of Hazzard (CBS)	25.6	42
4	Private Benjamin (CBS)	23.9	37
5	M*A*S*H (CBS)	23.8	34

2000-01

Rank	Title	Share*	Rating†
1	Survivor II (CBS)	17.4	27
2	ER (NBC)	15.2	25
3	Millionaire - Wed (ABC)	13.7	22
4	Millionaire - Tue (ABC)	13.0	21
5	Friends (NBC)	12.9	21

*Number of households viewing the show as % of total
†Number of households viewing the show as % of TV sets in use
Source: Nielsen Media Research

It has become an article of faith in America's TV business that such traditions are under threat. Network television, the channels that are broadcast nationwide via TV stations affiliated to the big networks, used to be the only way to receive TV. In the 1950s, a show such as "I Love Lucy" would grab over 70% of an evening's audience. By the 1970s, over half of all viewers were still settling down together to watch "All in the Family". Today, however, even "Friends", which in the 2001-02 season has climbed the charts to become the most popular TV series, captures only 24% of the audience. The rest of them are scattered across a smorgasbord of other channels whose acronyms—HBO, MTV, CNN, ESPN, USA, A&E—have long become as familiar as the networks'. The TV-listings page in the newspaper accords the network TV channels no special status: they are just another set of numbers to press on the remote control.

The erosion of the network audience, and the way it has shattered into little fragments across these different channels, has changed the television landscape in America over the past 15 years and is now doing the same in Europe. Last year, 20% of all TV viewing in Britain was of pay-TV channels, which are now delivered to 50% of British homes, up from 5% ten years ago. In France, pay-TV's share of viewing doubled to 12% over the same period, according to Carat, a media-buying agency.

Five minutes of fame

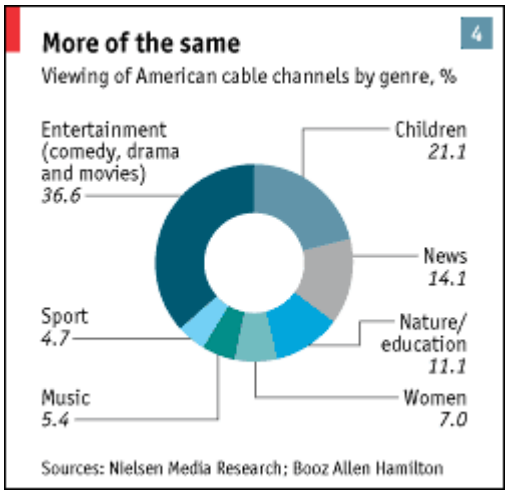
Many observers believe that as this trend continues, and audiences splinter into ever-smaller pieces, the social experience of TV will fragment too. This will spell the end of an era when watching TV together (in time if not in space) has provided whole countries with some sort of cultural glue, and the beginning of something more individualistic. The new technology carried inside the PVR, combined with television-on-demand, is but a new accelerator of a longer-running trend.

All by myself

Or is it? The concept of fragmentation deserves closer inspection. Yes, the number of channels has proliferated. Yes, the audience watching any one channel now is a small fraction of network audiences 15 years ago. Yes, some of those channels cater to niche markets, with non-stop coverage of cartoons,

music videos or news, for which people once had to wait patiently on the network. And yes, some of those niches are even now sub-dividing. Where once Ted Turner's CNN was a ground-breaking novelty in delivering 24-hour news, now Americans zap between MSNBC, CNBC (for business news) and Fox News too. Even in Britain, a relative newcomer to multi-channel TV, there are now 17 channels dedicated to children.

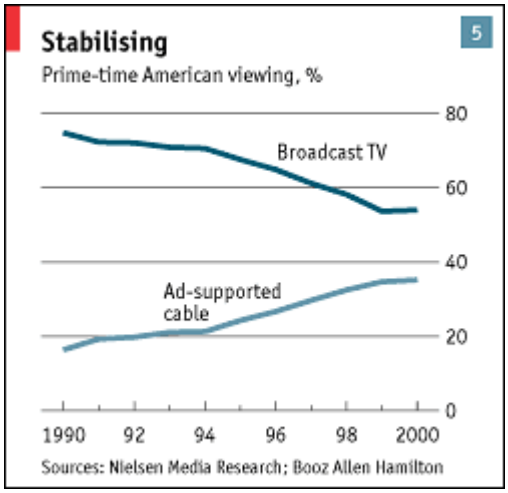
Yet what is it that people are watching on all these channels? The answer is generally mainstream stuff—mostly comedy, film and drama (see chart 4)—rather than obscure fly-fishing contests or art-house European films. In other words, just the sort of thing they used to tune into on the networks. Indeed, in recent times, such material has increasingly migrated across to the cable channels. Earlier this year, for instance, NBC relinquished the rights to carry National Basketball Association games chiefly to two cable channels, ESPN, owned by Disney, and TNT, part of AOL Time Warner. European pay-TV operators' efforts to lure new subscribers have also concentrated on the rights to big sports events and new movies. In short, people are using all these channels mainly to watch what they were watching before, rather than to satisfy their passionate niche interests.



The devil you know

Moreover, whereas the number of channels has surged, and will continue to do so with digital TV, the top ten cable channels have remained remarkably constant over the past ten years. The list is dominated by the same names now as it was then: ESPN, USA, MTV. And those top ten, each a brand itself, have tightened their grip on the multi-channel market, so that they now bag about two-thirds of all national cable advertising. Rather than endlessly fragmenting, viewing has settled down, and cable's share of prime-time viewing has stabilised (see chart 5). Together, the broadcast networks (NBC, CBS, ABC, Fox, the WB and UPN) and the top ten cable channels grab about 90% of the audience, a figure that has remained steady for several years.

For all the wealth of choice, most viewers watch relatively few channels: on average about 15. Indeed, one of the most popular features of digital TV is the ability to compile lists of favourite channels in order to screen out much of the choice that digital delivers. Clearly, near-infinite choice has not created near-infinite fragmentation. “Americans profess a love of choice, rooted in a belief that we're all cowboys out on the western plain,” says Leland Westerfield at UBS Warburg, “but the viewing patterns show that, in practice, we want to be entertained in a community fashion.”



This has several implications. The first is that, in a polarising multi-channel market dominated by a few big strong branded channels, it will become all but impossible for tiny, niche ones to survive, let alone start up from nowhere. Digital television is often compared to publishing: channels will be sliced into wafer-thin thematic slivers, each backed by advertising to the narrowly targeted demographic groups they supply. Indeed, various publishers have recently turned their magazines into TV channels: Match TV, launched by Lagardère, a French conglomerate, is based on its magazine, *Paris Match*; Kerrang! and Smash Hits are music channels based on their namesake magazines owned by EMAP, a British publisher.

This may work with some genres, especially ones that are cheap to produce, such as music or pornography. But it is far more difficult to run a specialist TV channel, hungry for content that is costly to produce, than it is to run a specialist magazine. Strong, well-defined and branded niches may cope, particularly if they can serve the same niche in different countries. Al-Jazeera, for instance, a news channel for Arabic-speakers that burst to fame after the attacks on America on September 11th, had been quietly serving a niche in Britain, where it is carried by BSkyB on channel 674. But a shake-out of weaker thematic channels is inevitable—up to a quarter of them, suggest some analysts. It has already begun. In Britain alone, the Money Channel (finance), the Wellbeing Network (health) and the Taste

Network (food) have all folded recently.

The second implication is that, if people are turning to multi-channel TV simply for more of what they once watched on network TV, the threat to the common experience looks a lot less menacing. Indeed, the closer you look, the more unconvincing the idea of its imminent demise appears. To start with, there will always be exceptional events that pull in the mega-audiences: the Olympics, the Oscars, the soccer World Cup. A staggering 87m American viewers tuned in to watch the Super Bowl in February this year, over 2m more than last year. Even the attacks of September 11th demonstrated how Americans still gather together in front of their TV sets in times of crisis: television viewing of the terrorist assaults and their aftermath far outweighed any Internet viewing of the events. News anchors such as ABC's Peter Jennings provided the reassuring avuncular presence that Americans needed—and that only mass TV could supply.

Furthermore, the more that the market fragments, the greater the value to advertisers of any outlet that can offer such a mass audience. Hence the immense pressure on TV network heads to create “event TV” or “water-cooler TV”: the sort of show that generates a buzz and gets people talking in the office the next day. The networks are more dependent than ever on such hits, and more vulnerable as a result. ABC, for instance, soared to the top of the network ratings league table in 1999-2000, on the back of the early success of “Who Wants to be a Millionaire?”. Once that game show began to bomb, ABC's ratings sank from first to third place.

Finally, the way in which such a common experience is generated and a mass audience built up will become more complicated. If tabloid fever is any measure, “Big Brother 2” became a mass talking point in Britain last summer. Despite drawing only about 4.5m viewers, and thanks to a multimedia blitz that pumped out gossip, chat, news and live feeds on the Internet and on mobile phones, the show grabbed no fewer than 110 tabloid front pages. Once magazines, gossip rags and talk shows plug in, it is possible to create the sensation of a mass experience. “We all still know who ‘The Simpsons' are,” says Marty Kaplan, at the University of Southern California, “even if we've only ever watched it for five minutes.”

But surely the PVR and TV-on-demand, once widely available, will shatter what remains of communal TV viewing? After all, once people can liberate themselves from the TV schedules, and are free to call up what they want when it suits them, their list of recorded shows will become their own personalised channel. Will this not finish off the mass TV experience?

The early evidence from those who already use a PVR suggests that this is unlikely. TiVo users spend nearly 70% of their viewing time watching programmes they have recorded, rather than live TV; and the longer they use the machine, the higher that proportion climbs. But what are they recording? Mostly comedy, soap, drama and children's programmes. And when are they watching this? In the evening, albeit at a different time from that scheduled; often later the same night, or perhaps the following day. In a TV-on-demand experiment that the BBC is conducting in 12,000 homes in the English city of Hull, for instance, one of the most popular functions is to select the “catch-up” time for “EastEnders”, the BBC's home-grown soap, which on the network is repeated only once each week on a Sunday afternoon.

In other words, the revolution promised by television-on-demand is above all one of convenience. People will still watch their favourite soaps, so that they can gossip about them at work the next day or follow them in the celebrity pages, but they will not all watch them at the same time. TV will become more like the movies: not everybody went to see “A Beautiful Mind” on the same day, but sooner or later many did, which allowed them all to talk about it. Besides, as HBO's Mr Bewkes points out, even with TV-on-demand, “You still need a scheduled premiere in order to market and launch a new programme.” Only once something is well established will it become possible simply to release new episodes into a storage device, for viewers to watch when they choose.

All of this suggests that TV-on-demand and the PVR will do nothing to destroy communal social experience. In some respects, they may even help to restore it. The ease of recording and calling up programmes will liberate people from their armchairs at eight o'clock each weekday evening. “TiVo will restore the family meal,” claims Endemol's Mr Bazalgette. Mr Ramsay thinks it will make it easier for parents to control homework time: they can record and save their children's favourite after-school TV shows for when the algebra is done.

What viewers appear to want, then, is simply a more convenient new way to watch familiar old TV programmes. But how ready is the industry to supply it? And who stands to benefit, and who to lose?

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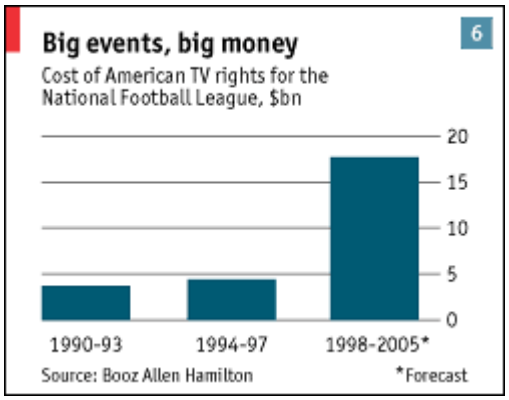
All in the family

Apr 11th 2002
From The Economist print edition

In television, it's best to be big

IT WAS widely rumoured that this would be the last season of “Friends”. The show was already in its eighth year, had become tired, and had long outgrown its original premise—six young friends in New York living away from home for the first time. The leading actors were all well into their 30s, and itching to move on. But then the show stormed back up in the ratings. In February, buoyed by its creative resurgence, the actors renewed their contracts for a further season, and NBC secured the show, made by Warner Brothers, for another year. The price for nailing down the six actors? Over $1m for each cast member per episode, or 40 times what they each earned at its launch.

The economic boom of the dotcom days masked both the profligacy and the oddity of the American TV-production market. Lavish advertising revenues made the escalating cost of television content look relatively trivial; indeed they fuelled it. The average cost of producing one half-hour sitcom is now $1m; an hour-long drama will take twice that. Nor is it much cheaper to buy the TV rights to something made by others. ABC, Disney's broadcast network, recently paid $70m for the TV rights to the first Harry Potter film, the third-highest sum ever paid for broadcast-TV film rights. The cost of acquiring sports rights, both in America and in Europe, has headed skywards too. The total value of TV-rights fees paid to America's National Football League, for instance, surged by over 20% a year in the 1990s, according to Booz Allen (see chart 6).



The recent advertising slump has made these costs much harder to bear. Earlier this year, for instance, News Corp wrote off $909m for TV sports rights, pushing its net loss in the last quarter of 2001 to $606m, from $23m in the same period the previous year. Overpayment on film and sports rights, including those for Formula One racing and two soccer World Cups, is in good part responsible for the teetering condition of Premiere, the German pay-TV operator owned by Leo Kirch. Pay-TV operators have found it particularly hard to persuade people to pay for all the movies and sports they bid so much to secure.

As the cost of content has spiralled, so has the risk. Take drama and comedy, which fill up the bulk of the prime-time schedule. Every year, each big TV studio will commission some 30-40 new scripts, chiefly from its in-house roster of highly paid writers. Of those scripts, just four or five will be made into pilots, and probably just one will be accepted by the network for a full series.

Even then, it may not last: most series are not renewed, and many are pulled after just a few weeks if the ratings dive. All this from a payroll of writers that cost a studio $50m-100m a year in boom times, and for a show that almost always costs more to make than the network pays to show it. Scripted TV production, in other words, is like the music industry: based on the expectation that most of its bets will fail, but that one mega-hit will bring in the jackpot to finance all the duds, through syndication and sales abroad.

The hefty costs and risks involved increasingly mean that only programme makers with deep pockets and access to wide distribution can afford to play the game. Wherever you look in TV today, more and more assets are falling into fewer and fewer hands. Ten years ago, America's top ten pay-TV operators accounted for 56% of all subscribers; by last year, that figure had risen to 87%. If the regulators allow Comcast to take over AT&T Broadband, a rival cable operator, this share will swell further. The top three owners of

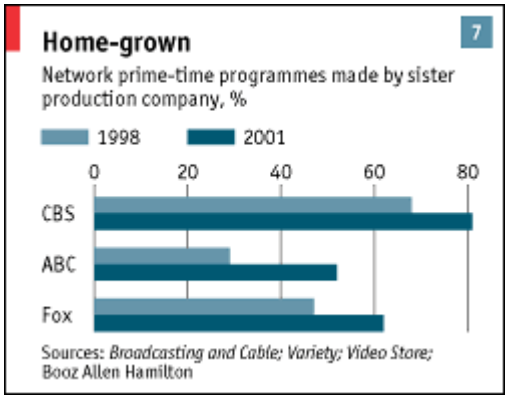
cable channels, AOL Time Warner, Viacom and Disney, now account for two-thirds of all cable advertising revenues, according to Booz Allen. The same sort of thing is happening in Europe. If the regulators approve the deal, Italy's two satellite-TV operators, Telepiu and Stream, will soon be one. There are only two, heavily indebted, cable systems left in Britain, Telewest and NTL, and there is endless speculation that they too will merge.

In the family way

Spreading the soapsuds

There are two main reasons for consolidation. First is the need for scale. As Peter Kreisky, at the Kreisky Media Consultancy, puts it: “In TV, you need to spread the cost of programming across as wide a footprint as possible.” Once you have covered the cost of a programme, every extra viewer adds directly to your profit margin. Ted Turner understood this when he bought the Hanna-Barbera cartoon library and set up The Cartoon Network, a cable channel, on the back of its programmes. “Repurposing” has now become a hot idea in American television. In essence, it is just a fancy word for showing repeats on sister channels. Disney, for example, has launched Soapnet, a cable channel, on which it repeats daytime soaps from its network, ABC, during the evenings. Disney now plans to use its new ABC Family channel to “repurpose” other ABC network shows, such as action-adventures, that do not fit on the family-oriented Disney Channel. News Corp recently did the same with “24”, a clever new drama starring Kiefer Sutherland, which at first failed to draw ratings on the Fox broadcast network, but did better when it was recycled on Fox's FX cable channel too.

Does this technique earn extra revenue, or simply scatter the same viewers across different outlets? Anne Sweeney, head of ABC Cable Networks at Disney, says that repurposing has drawn new viewers, such as people who miss day-time soaps because they are at work. It may also provide publicity, enabling new viewers to sample a show that they then watch on a mainstream channel. According to Booz Allen, most of the viewers of repurposed shows on cable are indeed new, rather than duplicated, viewers. The trick then is to find a way of recombining all the viewing of a single show, now dispersed across different channels, in a way that can be offered to advertisers.



The second force behind consolidation is vertical integration. By owning both a TV show and the means to distribute it, an operator can become a forceful promoter of its own programming—and gatekeeper for others. Ever since 1995, when the regulators in America allowed the broadcast networks to own TV production houses, content and distribution have scrambled to get together. Viacom, which owns Paramount Studios and channels such as MTV and Nickelodeon, now owns CBS too; Disney has bought the ABC network, and now the Fox Family channel too. Although the networks still buy shows from production houses other than their own, in recent years they have been airing more of the stuff made by their own sister TV studios. In 2001, 81% of the prime-time shows on CBS were home-made by its sister studio, up by a fifth from 1998; the figure for the Fox network was 62%, up by a third over the same period. “You limit yourself if you fish only in one part of the creative pool,” says Bruce Rosenblum, head of television at Warner Brothers, “but the networks usually favour their own production.”

The logic of scale and vertical integration applies not only within the TV industry itself, but also to media groups more broadly. A network, for instance, can help to cross-promote not only its sister cable shows, but the films, music or other content belonging to the parent. When Warner Brothers releases the movie “Scooby-Doo” this summer, for instance, repeats of the 1960s animated cartoon series will run on AOL Time Warner's Cartoon Network, and new episodes of the series on the group's WB network. Through locally made versions of the show, the first “Popstars”TV series, a talent show, created “Bardot” in Australia, “Hear'Say” in Britain and “Eden's Crush” in America, each of which recorded hit albums. Their recordings may not rank as the finest contributions to the performing arts, but they are handy revenue

generators for the networks that air them and the record labels that distribute them—especially nice when both belong to the same media giant.

In television, the chief obstacle to further consolidation is often regulation. The German regulators, for instance, have just turned down a bid by John Malone, the father of American cable TV and head of Liberty Media, a content-provider, to buy Deutsche Telekom's cable networks, on the ground that it would make him too powerful in both content and distribution there. Until now, the American regulators have limited the number of TV stations any single company can own, and forbidden any firm from owning both a cable distribution system and a broadcast station in the same city. Now, following a legal challenge, the regulators are reconsidering the first rule, and have dropped the second. A further bout of consolidation lies ahead.

But what happens to the midgets in this world of media giants? Without preferential access to either a network or a pay-TV operator, they are finding it harder than ever to get their TV shows or channels picked up. “It is becoming increasingly difficult to sell shows to the networks,” says Michael Jackson, head of TV at Vivendi Universal Entertainment, itself a giant, which owns cable channels but—for now—no network nor pay-TV operation in America. Sony, which has suffered from having no distribution channel in America, has scaled back its TV production unit.

Tiddlers lose out

Life is more difficult still for independent outfits. Securing carriage for Oxygen, for instance, a new channel designed for women, was “incredibly hard”, says Geraldine Laybourne, its founder and a TV veteran herself. Writers feel squeezed out too. By last year, the top six media conglomerates accounted for 70% of all the money spent on screenwriting, according to the Writers Guild of America, their union. “Without the participation of one of these conglomerates, you would be hard pressed to get your programmes to viewers,” the union wrote in a recent submission to the regulators: “There are no independent programming services left to speak of, or to speak out.”

There is another downside, as perceived from some quarters, to the American TV companies' perpetual hunger for scale. It is that their quest will propel them ever more urgently abroad. Even with looser rules, there are limits to expansion in America alone. And the more that the PVR spreads, the harder it will be for the American TV operators to rely on techniques such as repurposing: the PVR is the ultimate supplier of convenient viewing times. As the American TV industry roams abroad, however, it bumps into a different sort of obstruction: a surprisingly robust fear of American cultural imperialism.

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Think local

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Cultural imperialism doesn't sell

Reuters

But I still have a French passport, honest

AS SOON as he had said it, he must have wished he had never opened his mouth. When Jean-Marie Messier, head of Vivendi Universal, recently made the throwaway comment that “The franco-French cultural exception is dead,” he kicked up a frightful political fuss. Catherine Tasca, the French government's culture minister, declared herself “scandalised”. Lionel Jospin, the prime minister, was wheeled out to remind the French that “We must defend a cultural exception”—the idea that culture, and particularly French culture, needs protection from market forces.

Mr Messier and his firm embody a transatlantic collision of cultural values that has long provoked anxiety in France. A graduate of the Ecole Nationale d'Administration, the elite French graduate school for civil servants, and a quintessential product of the French system, Mr Messier took a water and sewage-treatment utility, the 149-year-old Compagnie Générale des Eaux, added to it Universal Studios and a bagful of other media assets and transformed it into a glamorous, American-oriented enterprise. A triumph for French internationalism? More like the “Hollywoodisation” of French TV and cinema and the renewed spectre of American cultural hegemony, said the French.

The menace of American popular culture trampling on the local version still touches a raw nerve, and not only in France. The high priests of anti-globalisation make much of it. “Market-driven globalisation”, wrote Naomi Klein in “No Logo”, the anti-globalisation bible, “doesn't want diversity; quite the opposite. Its enemies are national habits, local brands and distinctive regional tastes.” The worry also drips from the lips of TV programme-makers in Europe. “We are told the world is globalising,” said Greg Dyke, director-general of the BBC, in a speech in 2000. “That's not true: it is Americanising.” The urge to drive American popular culture from European TV schedules is sometimes pursued with a passion. “We are all proud of the fact that US programming has less of a place in the prime-time schedule than it did 20 years ago,” declares Caroline Thomson, head of public policy at the BBC.

This comment itself, however, highlights a distinctive pattern in the evolution of TV programming. When TV first takes off in any country, and there is only a fledgling production industry, cheap imports from America tend to fill the airwaves. With time, however, and as home-grown production develops, the share of locally made programmes grows. “In almost every TV market in the world, local product has been growing in the past five years, at the expense of American,” says News Corp's Mr Chernin, whose satellite-TV operations reach some 85m people in Asia, Europe and Latin America. The top TV show in South Africa is “Generations”, a home-grown multiracial soap; in France, it is “Julie Lescaut”, a French police series; in Brazil it is “O Clone”, a *telenovela* made by TV Globo. “The more the world becomes global,” says Bibiane Godfroid, head of content at Canal Plus, which operates in 11 European countries, “the more people want their own culture.”

American shows have not been swept from the schedules altogether. A few categories, particularly blockbuster Hollywood action movies, cartoons (easy to dub) and certain hit series, still travel. German teenagers settle down avidly to “Buffy im Bann der Dämonen”; Chinese children are mesmerised by the recent return of Mickey Mouse cartoons. And plenty of lesser American TV shows are still recycled into the rest of the world's living rooms, often as filler for the daytime hours. Yet the prime-time schedules are increasingly occupied by home-grown output, not because of quotas, but because this is what people want to watch. “Viewers are essentially local in what they consume,” says David Hulbert, head of Walt Disney Television International. For American content providers, this is prompting a reassessment of how to refashion their stuff for export.

I want my MTV

Outside the English town of Maidstone, Kent, in the shadow of the M20 motorway, Walt Disney, icon of American cultural expansionism, is conducting an experiment in locally tailored programming. Inside the bright white studio, they are shooting an art show for the Disney Channel, a children's TV channel carried round the world. Oversized paint pots and paint brushes, in fuchsia pink and lime green, decorate the set. The presenter, in a bright red sweatshirt, is demonstrating how to construct a cardboard cut-out bumblebee. But listen closely, and you find that he is speaking Spanish. This week they are making the Spanish-language version of the show for Mexican TV, and he has been flown in specially for the occasion. Next week the Brazilians are due to start rehearsals. The French, Italians, Germans and Spanish have already finished.

Last year, 216 episodes of the show were made in six different languages. The idea is to take a single format and reshape it for each country to give it a local feel. For this series, “Art Attack!”, about three-fifths of each show is made up of shared footage: close-ups of the hands of one artist, a Liverpudlian who presents the British version, constructing the cut-out bumblebee. The rest of the show is filmed separately for each country, the heads and shoulders of local presenters seamlessly edited in with the Liverpudlian hands. Even though local presenters must be flown in, the show still costs only about a third of what it would take to produce separately in each country. Local viewers in each place consider the show to be theirs.

Disney is not the only American branded channel to seek local versions of its content. The pioneer was MTV, which continues to draw scorn from the anti-globalisation crew, “standing triumphant at the centre of the global teen phenomenon,” as Naomi Klein puts it. Yet MTV has moved further than almost any other branded American channel to create local versions for different countries. It now has 35 different channels worldwide, 15 of them in Europe; some 80% of the content on MTV Italy, for example, is Italian-made. Advertising theory may consider “the global teen” an international demographic group, but many of its tastes are still local.

BBC

Building up audiences in America

There are now 22 different versions even of CNN, another emblem of American cultural imperialism, including one in Turkish and two in German. As recently as 1996, 70% of the English-language version of CNN International was American; today that share has shrunk to about 8%. “We've de-Americanised the channel,” explains Chris Cramer, head of CNN International Networks.

This trend not only satisfies a more assertive demand for a product attuned to local preferences, it also makes commercial sense. Despite the fashionable notion that “affinity groups”, people who share similar tastes but not nationalities, would enable advertisers to cut across national boundaries, television advertising remains highly parochial. Virtually all advertising is still sold country by country, as are the rights to foreign TV shows and films—even within a pan-European company such as Bertelsmann's RTL, which owns TV broadcasters in 11 European countries.

Out of America

Ah, reply the anti-globalisers, American companies may be altering their television voice to satisfy increasingly picky foreigners, but this does not add up to more diversity. The voices still belong to the same handful of American corporate giants. Naomi Klein brushes aside any attempt at internationalising an essentially American product as “candy-coated multiculturalism”. Nigel Pickard, head of BBC children's programmes, once dismissed an American kids' show carefully adapted for British viewers with the words: “Blue's Clues is based on US educational principles.”

But even as Europeans mutter about the vulgarising force of American culture, they are busy enriching themselves by peddling one of the tawdriest popular genres to the Americans: reality TV. These shows require contestants to subject themselves to televised humiliation, ranging from the relatively civil (quiz shows) to the downright alarming (stunt shows).

Most of the big reality shows that have dominated American network TV recently are based on formats devised and sold to them by Europeans: “Survivor” on CBS, “Who Wants to be a Millionaire?” on ABC,

“The Weakest Link” and “Fear Factor” on NBC. The world's most prolific exporter of reality formats is a Dutch TV production company, Endemol, now owned by a Spanish group, Telefonica. Although some of these shows have now peaked, the genre remains popular, not least because it is cheap to make. In the year to September 2002, reality programming will account for 15% of the networks' prime-time schedules, up from 11% in the same period the previous year, according to UBS Warburg.

The advantage of such formats is that they meet both the growing need to export and the growing demand for local flavour. The format stays the same worldwide—the studio set, the logo, the rules, the theme tune—but the show is made locally in each country and feels local. “Loft Story”, whose first version drew unprecedented audiences last year to M6, a minor French broadcaster, feels French in France, even though the format (“Big Brother”) is Dutch (Endemol), and the broadcaster partly German (RTL). “The culture of being local is very important,” says Didier Bellens, head of RTL. The format for “Millionaire” has been sold and remade all round the world, from Germany to India. That for “Pop Idol”, devised by RTL's Fremantle Media, recently took South Africa by storm. Drama formats too can be traded. Britain's “Queer as Folk” and “As If” have recently been remade and recast for the American audience. Aspirational Americans do not want to watch dreary British teenagers hanging around in rainy English towns.

This form of localising content may not satisfy the purists, because the foreign ancestry of a series is usually disguised. But it does at least help to support a country's local TV-production industry, which exporting “Kojak” or “Dallas” never did. And even on American screens there is more diversity to be had. In Los Angeles alone, it is now possible to tune into cable programming not only in Spanish but also in Korean, Chinese, Japanese and Russian.

Although much of this is American-owned, foreign ventures are inching their way in. Univision, the biggest Spanish-language TV network in America, is half foreign-owned; most of its programming, including the hugely popular *telenovelas*, is made by Mexico's Televisa. Arte, a Franco-German culture channel, is expanding its service in America. BBC World has extended its reach in America by 52% since September 11th. Indeed, of the world's seven media conglomerates, four—Vivendi Universal (French), News Corp (Australian), Sony (Japanese) and Bertelsmann (German)—are based outside America.

In short, the trade in TV content is no longer a one-way street. Much of the American stuff now needs to be adapted to travel overseas, as does the non-American stuff heading in. Britain's “Bob the Builder” is hammering his way into American living rooms, his Staffordshire accent transformed into middle-American; since last May, 2.9m videos of this children's animated series have been sold there. The BBC now co-produces much of its natural-history output with Discovery, whose American cable channel has recently shown “The Blue Planet”, a highly acclaimed series about ocean life. Even Mr Messier is doing his bit to champion French culture in America: Vivendi is now planning a new European film channel there. It will be, among other things, a showcase for French movies financed by Vivendi's Canal Plus, thanks in part to French government quotas to accommodate the “French cultural exception”.

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Up the tube

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It's easy to sniff at television, but much of it is surprisingly good

A fun-filled European idea

THE prospect of a torrent of choice heading for the TV screen leaves many people cold. Why seek a wealth of choice if it leads to a poverty of spirit, quality and imagination?

The best place to discover whether more options will make tomorrow's television viewer better off is America. It already inhabits the commercial multi-channel world of television which the defenders of the status quo elsewhere so dread. Critics of American television agree that viewers have plenty of choice, but complain that there is seldom anything worth watching. This, they say, is because American TV is about selling audiences to advertisers, not programmes to viewers, and because corporate concentration is the enemy of risk-taking and originality. So any pretence that TV is an art form is sacrificed in the quest for ratings and profitability. Safe, formulaic TV triumphs.

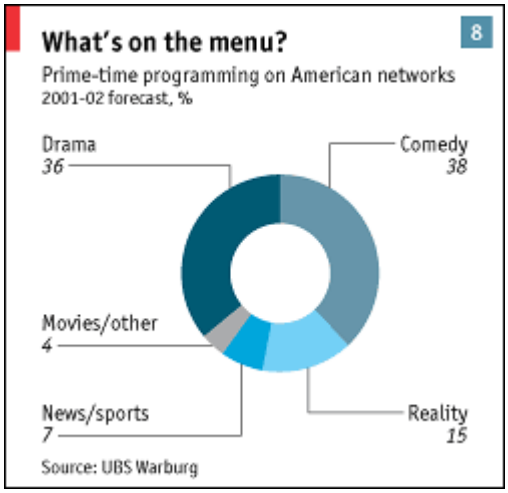
This is a caricature of the grievance, but only just. “Today, the airwaves are inundated by drivel that panders to the audience's most base interests,” reads the publicity for “Down the Tube: an Inside Account of the Failure of American Television”, by William Baker and George Dessart, one serving and one former TV executive. This underlying problem, others argue, has been sharpened by the growing concentration of media ownership. “When everything is squeezed through one or two or three narrow funnels, when profit and ratings and other corporate goals enter strongly into the mix, of course creativity suffers,” argues a recent report by the Writers Guild of America.

It is possible to experience all sorts of things when watching American TV these days, including dismay at its banality and consternation at its insularity; but nobody could accuse it of failing to provide variety. A glance at a recent prime-time Monday schedule throws up a range of choices, including two bizarre reality shows: “Fear Factor”, on NBC, in which contestants perform stunts that range from the weird (shoving their heads inside a fly-filled perspex cube to eat strawberries) to the perilous (climbing out of a car suspended from a crane); and “The Chair”, on ABC, in which John McEnroe fires questions at contestants wired up to a heart monitor while strange reptiles are lowered towards them. Then there are the standard sitcoms (“Everybody Loves Raymond” on CBS), sport (women's basketball on ESPN) and old movies (“Gone with the Wind” on Turner Classic Movies). The evening also offers a documentary on Discovery about tidal waves; another on Discovery Wings about, as ever, aeroplanes; “Cinema Paradiso”, an Italian art-house movie on the Sundance Channel; and “Six Feet Under”, a ground-breaking new drama on HBO.

To be sure, it is not hard to find on American TV the “flood of tittle-tattle that panders to the lowest common denominator”, as Bill Moyers, a journalist at the non-profit Public Broadcasting Service, once put it. This is particularly true of the networks, mainly in categories such as news and factual programming, and reality TV, for which Europeans have much to answer. Despite the events of September 11th, American TV news is still highly parochial (foreign bureaus have been pared everywhere, except at CNN), and fixated by celebrity—even its own. Much airtime was devoted to a decision earlier this year by Greta Van Susteren, a news presenter, to undergo plastic surgery.

Yet in drama and comedy, which account for nearly three-quarters of prime-time scheduling (see chart 8), American TV is creatively strong. The list of classy contemporary American output is impressive: “Frasier”, “Friends”, “The West Wing”, “The Sopranos”, “Six Feet Under”, “Sex and the City”, “24”. It goes on into animation, with “The Simpsons” and “South Park”. Some of these series are now ageing, and American TV executives are frantically

seeking fresh comic success. But some are relative newcomers. “Six Feet Under”, a drama series set in a family-run funeral parlour, began only last year. Like “The Sopranos”, it is dark, funny and uncomfortable. It “excels on all levels”, drooled *Le Monde*, a highbrow French newspaper, when the show recently arrived on French TV screens.

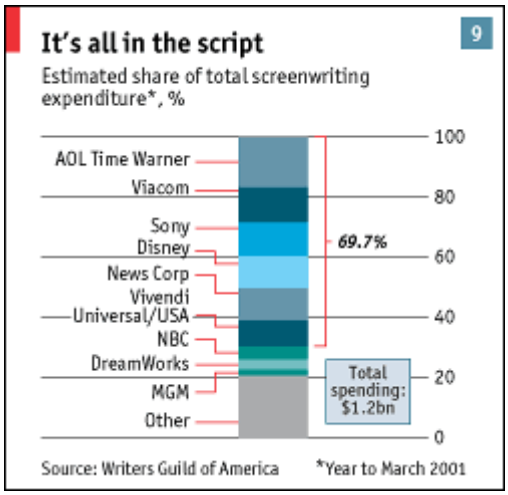


So how is it that commercial American TV can come up with such funny, clever output? The first explanation is HBO. “Sex and the City”, “The Sopranos” and “Six Feet Under” are all made by this cable channel, part of AOL Time Warner. “HBO's achievements have had a dramatic impact on the entire media culture; creatively, it's put its rivals to shame,” comments Peter Bart, editor of *Variety*, a Hollywood industry newspaper. HBO owes its achievements to a potent mix: stable management under Jeff Bewkes, who has held one or other of the two top jobs for the past 11 years; savvy, blanket promotion of its shows; and a business model that relies entirely on subscriptions rather than advertising. Curiously, a channel that did not originally chase ratings, because it did not need to, has ended up grabbing them anyway: on Sunday evenings during the summer, “Sex and the City” often beats other network shows. All this enables HBO to take creative risks, which itself draws talent to it. Alan Ball, who writes “Six Feet Under”, had previously won an Oscar for the screenplay for “American Beauty”, a successful movie. Writers love working there. “On most network TV, once you have a successful formula, you have to stick to it for ten years,” says Michael Patrick King, creator of “Sex and the City”. “With HBO, we have complete liberty to take the story wherever we want.”

The best that money can buy

The second reason is scale. The sheer size of the domestic market in America, and the deep pockets of the media conglomerates, permit budgets for pilots and development of an order that European producers can only dream of. Drama is the most expensive kind of programme: the BBC spends about four times as much on an hour of drama as it does on an hour of current affairs. Yet the Americans can spend four times as much again. Whereas a European comedy series will be hatched by one man in his attic, an American studio will hire a team of highly paid writers, assembled to wisecrack at each other across a writers' room. It would be pitiful if all that money sloshing about in Los Angeles supplied nothing of any worth. As it is, there is plenty of junk churned out, much of which ends up unbroadcast on library shelves. “It is a system based on huge investment in rare success and anticipated failure,” comments Tim Gardam, head of programmes at Britain's Channel Four. “Our economics do not allow for sufficient investment in drama to produce the bulk to rival the Americans.”

Third, there has been something of a shift in the kudos attached to television drama. The movie studios used to sneer at television as a medium; the best actors and writers used TV as a means of graduating to the more glamorous feature films. Today, when Hollywood is becoming ever more glossy and formulaic, much of the edgy, genre-busting stuff is coming out of TV. “TV used to be considered the bastard cousin to films—occasionally bright but no pedigree,” explains Mr King. “Today, the place people are looking to creatively is television.” Where once the natural career path was for an actor to quit TV for movies, today film actors are returning to drama on the small screen. “You don't have to apologise for working in TV any more,” comments Marty Kaplan, at the University of Southern California.



When Carrie met Ally

The blinds are pulled down in the writers' room to keep out the Californian sun. There are bowls of almonds and bananas and bottles of water on the sideboard. On a vast wall-mounted picture board, the next series is plotted out in magic marker pen, a different colour for each of the leading characters. This is the creative nerve-centre for “Sex and the City”, a drama about four single women in New York, and Mr King is explaining how it is developed. Suddenly there are screams of jubilation in the office outside.

One of his team of writers bursts in, flush with exuberance. The series has just been nominated for yet another clutch of television drama awards. And Mr King's role in all this? He is the executive producer and writer of the series—and often directs it too.

The final reason for America's creative strength is that certain successful writers now carry enormous clout. This enables them to withstand the pressure to stick to safe, proven formats put on them by the advertising-dependent networks. Many of the well-crafted series can be traced to a small number of individuals, such as David Kelley (“Boston Public”, “The Practice”, “Ally McBeal”) or John Wells (“ER”, “The West Wing”). They have the muscle to be able to push ideas past sceptical executives, and move them from the writers' room on to the TV screen.

If the commercial American market is capable of delivering gems of quality television, where does that leave the public-service broadcasters, especially those financed from compulsory licence fees, such as the BBC or Sweden's SVT? Their job ought to be to supply the sort of programming the market does not: for instance, the highbrow arts and news aired on BBC Four, the corporation's new digital channel; or the public-policy debates on America's C-SPAN; or the philosophy discussions aired by Arte, the Franco-German culture channel. It is difficult to imagine the commercial sector in any country consistently taking the programming risks that, for example, BBC Four is now shouldering, with a full-length “Hamlet” in prime-time, or a performance of South African township opera. But America's experience suggests that the market may well be able to deliver more than the guardians of public-service broadcasting believe.

This, in itself, should be some comfort for those whose television industry will increasingly come to resemble America's. In many respects entertainment on television is better today than it has ever been since the first “sight-and-sound” machines, the “accomplished marvels of the age of electricity” (as they were described in a 1939 ad for General Electric) were unveiled to an incredulous public. Choice and convenience have triumphed, and often at the TV operators' expense. Much of this choice may be mediocre, and any one programme could be dazzling or dire. But at least it will soon be up to the individual viewer to decide whether to summon it on to the TV screen, rather than up to a handful of network TV heads.

Amid all the turbulence and uncertainty that surrounds the industry these days, a few other things are clear. The television viewer of tomorrow will not be an isolated individual watching the Lonelyhearts TV channel. He will have his personalised menu to cope with the hail of programming, but the shows topping his “favourites” list will still be “Friends”, “Coronation Street”, their successors and local variants. The squat old box may give way to an elegant wafer-thin screen, and the mechanism by which that screen comes to life may change. But television will remain primarily a vehicle for mass entertainment. It will still be manipulative and sentimental, voyeuristic and vulgar. But it will also challenge, disturb and enlighten, and sometimes make you laugh. There are worse ways to spend a fifth of your waking life.

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Kirch

The beginning of the end

Apr 11th 2002 | FRANKFURT
From The Economist print edition

The core of Leo Kirch's giant media group has gone bankrupt. Little else is certain about the fate of his empire

AP

FOR Leo Kirch, it is all over. On April 8th, as KirchMedia, the free-TV and rights-trading group at the centre of his empire, filed for insolvency, the German media mogul sent a farewell letter to his employees, signing off “God bless”. After 46 years in the trade, Mr Kirch had amassed a glittering array of assets, including several free-TV channels, Germany's sole national pay-TV broadcaster, the worldwide broadcasting rights to football's 2002 and 2006 World Cups and Formula One motor racing, and the rights to top-flight German football. Unfortunately, he amassed a mountain of debt too: bank debts of around *euro*5.5 billion ($4.8 billion), and billions of euros in other liabilities. KirchMedia's insolvency is surely only the beginning of Germany's most spectacular post-war corporate failure.

The old man's departure apart, the future of KirchMedia and the other parts of Kirch is anything but clear. Within KirchMedia, the one business that looks financially sound is ProSiebenSat.1, a large quoted free-TV broadcaster in which Kirch has a 52.5% stake.

KirchMedia's fate now rests in the hands of four banks to which it owes around *euro*1.4 billion. They have installed Wolfgang van Betteray, an insolvency specialist whom they foisted on Mr Kirch in February, to run the company. The banks insist that they can put KirchMedia on to a viable footing. One sign of their hopes is that, instead of being broken up and liquidated, KirchMedia has been put into “self-administration”, an unusual form of insolvency that allows existing management to remain in office and assist Mr van Betteray.

In one respect, bankruptcy makes Mr van Betteray's job easier. KirchMedia, he says, will not now have to come up with *euro*900m to buy out equity investors in various subsidiaries who hold put options, including *euro*767m due this month to Axel Springer, Germany's largest newspaper publisher. The creditor banks say that they are ready to put up more money. Predictably, Mr van Betteray promises cost-cutting and a focus on “core competences”.

Yes, but he knows the firm needs more than this. Other investors will be needed quickly: bankers make unlikely media moguls. At least *euro*1 billion is needed to capitalise the new KirchMedia. Axel Springer and WAZ, another big newspaper group, are said to be possible investors. Wolfgang Hartmann, spokesman for the creditor banks, has also invited other shareholders in KirchMedia, such as Rupert Murdoch's News Corporation and Silvio Berlusconi's Mediaset and Fininvest, to join in. Yet Mr Hartmann lambasted the same investors for the failure last week of KirchMedia's final attempt to avoid bankruptcy. They were unwilling to join the banks in providing an emergency loan of *euro*150m, and squabbled among themselves over the split of an *euro*800m equity injection.

Rights and wrongs

Another daunting task facing Mr van Betteray is safeguarding KirchMedia's huge film library and restructuring its rights-trading businesses. He would like to sever the firm's complex links to its sister company, KirchPayTV, which owns Premiere, the pay-TV broadcaster. Premiere is Kirch's real basket-

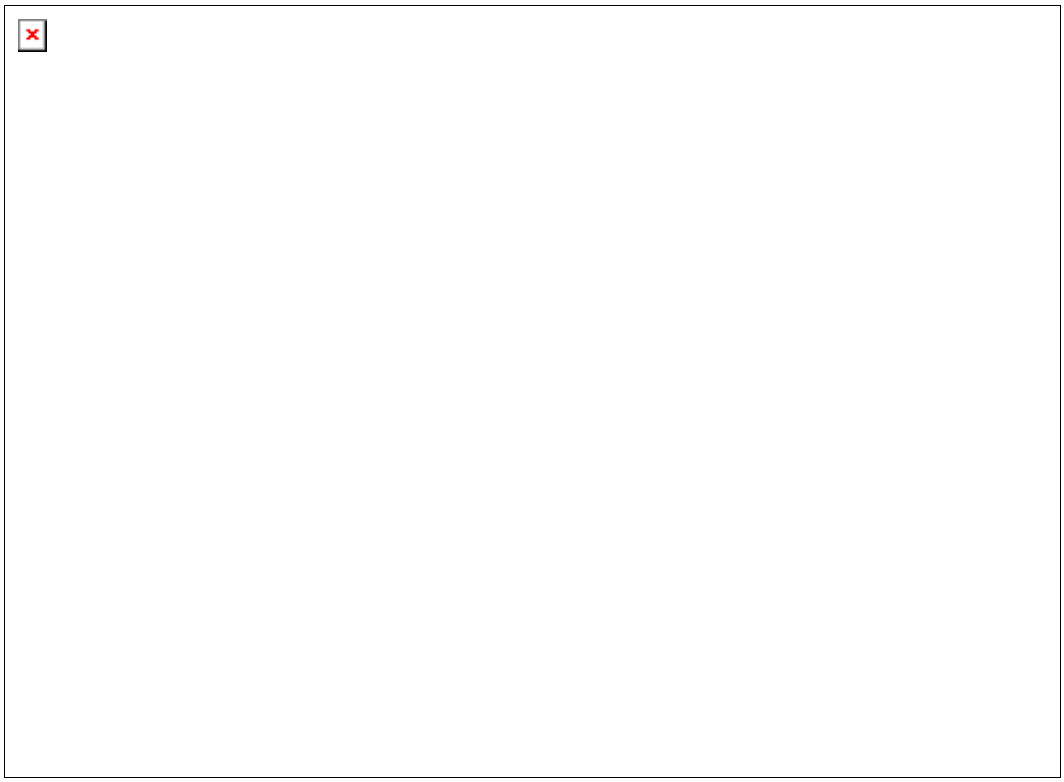
case. It has only 2.5m subscribers, compared with a target of more than 3.5m, and it has lost around *euro*3 billion since 1998. It buys the pay-TV rights for sports events from KirchMedia, which has deals with the rights-holders. Similarly, it buys most of its films from KirchMedia, which has onerous long-term contracts with most Hollywood studios. Around *euro*3 billion is due to be paid to the studios over the next few years for the pay-TV part of these deals. KirchMedia's new bosses made it clear this week that they want to renegotiate the terms of these contracts.

Premiere has, in effect, bled KirchMedia dry. Until recently, Premiere was thought to be paying its way. But it now seems that KirchMedia has not been passing on to Premiere all the costs incurred on its behalf. According to Mr van Betteray, film purchases for Premiere have left a hole of *euro*800m in KirchMedia's books. Moreover, he said, *euro*500m is owed to the studios right now, most of it overdue.

KirchPayTV's bankruptcy thus seems inevitable—it was even announced by Mr van Betteray on April 8th, then immediately denied by the company. As *The Economist* went to press, the firm was still hanging on. The most likely buyer is its largest outside shareholder, BSkyB, a successful British pay-TV operator that Mr Murdoch, in effect, controls. Although he has denied that he is negotiating a deal with Premiere's bankers, and although it will be difficult to make money from pay-TV in Germany (because most households receive an array of cable channels for a small fee), Mr Murdoch might be interested in Premiere if he could get it at a firesale price.

If he did buy Premiere, Mr Murdoch is likely to negotiate future film and sports deals directly with the rights-holders. That would strip KirchMedia of its role as the middleman in the pay-TV element of these deals, leaving it with a much-shrunken rights-trading business.

The remaining parts of Kirch's empire, TaurusHolding and KirchBeteiligungs, account for over half of the group's estimated bank debt (see table). At the banks' insistence, the principal assets of KirchBeteiligungs—40% of Axel Springer and a controlling stake in SLEC Holdings, which controls most of the commercial rights to Formula One—were put up for sale earlier this year. In February HVB Group, one of Kirch's creditor banks, offered more than *euro*1 billion for the Axel Springer stake.



But the value of Kirch's SLEC stake, for which it paid around $1.8 billion last year, has been greatly reduced by a threat from the large car makers that bankroll Formula One to form a breakaway series when the current agreements governing the division of the sport's revenues expire in 2008. At present, even at a greatly reduced price, the only likely buyer is Bernie Ecclestone, the founder and chief executive of SLEC.

Few of Kirch's lenders appear to have adequate collateral for their loans. Safest is Deutsche Bank, whose loans of around *euro*700m are secured by a first call on Kirch's stake in Axel Springer. Most exposed is

Bayerische Landesbank, of which the state of Bavaria owns half. It has loans of around *euro*1.9 billion outstanding, over one-third of Kirch's total bank debt, including over *euro*1 billion lent for the Formula One purchase. Its main piece of security is the much-devalued Formula One stake.

Kirch's fall has made a splash far beyond the world of finance. Many German football clubs depend on TV money from Kirch. Smaller clubs fear ruin, while the bigger ones worry about a loss of talent to England and Spain. German politicians fret that Mr Murdoch or Mr Berlusconi might get their hands on Kirch's TV assets. And the discomfort of Bayerische Landesbank has been a cheap source of political capital for Germany's chancellor, Gerhard Schröder. His challenger in September's general election is the Bavarian premier, Edmund Stoiber, on whom Mr Schröder and his chums have been eagerly heaping blame for the Kirch fiasco.

Mr Schröder has offered to help safeguard Kirch jobs, just as he did at Holzmann, a building group, in 1999. Oh dear: Holzmann went bust just a few weeks ago. As mistakes in this episode go, however, Mr Schröder's gesture is small compared with the gargantuan errors, still not fully calculated, made by Germany's banks—and, of course, by Mr Kirch.

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Technology

Big Blue's clues

Apr 11th 2002
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Bad news from IBM suggests that the technology recovery is still far off

THE giant has stumbled. On April 8th IBM, the world's largest computer company, gave a warning of lower than expected revenues in the first three months of the year—its first such warning in a decade. Citing a “very tough” environment, the firm said its first-quarter revenues would be around $18.5 billion, some $1 billion less than Wall Street expected. It marked a grim start to the reign of Sam Palmisano, IBM's new chief executive, who took over from Lou Gerstner on March 1st. But is the warning the result of Mr Palmisano's reluctance to engage in the crafty accounting that enabled his predecessor to deliver consistent growth, or a signal that technology firms are still in the doldrums?

Probably a bit of both. IBM's accounting practices have come in for renewed scrutiny since the collapse of Enron. Mr Gerstner repeatedly used all kinds of accounting tricks, involving asset sales, share repurchases and gains from the company's vast pension fund, to meet profit targets. In February, for example, it emerged that IBM had met its targets for the previous quarter only thanks to the sale, on the last business day of December, of its optical transceiver business for $300m. The company was criticised for accounting for this sum as a reduction in operating expenses, rather than as a one-off gain.

It is widely suspected that, if Mr Gerstner had still been at the helm, IBM might have used a similar trick in its latest quarter. By issuing this week's warning, Mr Palmisano may be serving notice that he does not intend to resort to such tactics in future. Given increased accounting scrutiny, notes Steve Milunovich of Merrill Lynch, IBM's proclivity for this sort of thing was becoming a liability. Faced with the daunting task of delivering the consistent double-digit growth of his predecessor, Mr Palmisano may simply have chosen to lower the bar.

The company plays down this interpretation, however, and blames weak demand instead. Ominously for the technology industry, there does seem to be a broader problem. Mr Milunovich points out that, right across the board, from services to software to hardware, IBM is maintaining or increasing its market share, so weak revenue spells bad news for the entire industry. A survey published last month by Goldman Sachs even found that IBM was one of the suppliers whose share of large companies' technology spending was rising most rapidly. Evidently overall technology spending is not bouncing back as quickly as was expected; talk of a recovery in the second half of 2002 now looks too optimistic.

Evidence for this view has been quietly building. Last week, Goldman Sachs lowered its expectations for such technology heavyweights as Microsoft, Sun, EMC and Siebel. Oracle, the world's second-largest software firm, reported disappointing profits at the end of February. Other technology companies, including Dell, Compaq and Hewlett-Packard, have also signalled that any recovery is likely to be later and weaker than was previously expected.

At the bottom of the technology food chain, sales of chips, which are considered a leading indicator of technology demand, have been flat for the past three months. The one bright spot, the rising price of DRAM chips, “is not a guide to the rest of the industry,” says Andrew Norwood of Gartner Dataquest, a market-research firm. That increase is due to industry consolidation, rather than growing demand. “We're bumping along the bottom,” he says.

In short, the outlook for IBM and other technology firms is bleak. There is, a Goldman Sachs report noted this week, “a strong disconnect between strong macroeconomic data and the harsh realities of current business in technology.” Only when large companies' profits have shown a couple of quarters of improvement, most analysts agree, will technology spending start to pick up. And that could take quite a while.

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Cars in China

Leave it to the locals

Apr 11th 2002 | HONG KONG
From The Economist print edition

Is there any point in manufacturing cars in China?

AP

One for the road

IT IS the world's last great growth market in cars. It has just entered the World Trade Organisation (WTO), thus committing itself to lowering trade barriers and easing foreign investment. And it is becoming the world's favourite factory, thanks to its cheap workers. Should multinational car makers not be in a hurry to get into China while they can?

With fewer than ten cars for every 1,000 of its more than one billion people, China certainly has potential (see chart). The Chinese government forecasts a market of 6m vehicles a year by 2010, equal to 10% of global demand. Graeme Maxton of Autopolis, a consultancy, thinks that 4m vehicles is more realistic. If China is a Belgium today in terms of market size, it could during this decade become a France.

Now that China is in the WTO, that might sound like an importer's dream. On January 1st, quotas rose and tariffs fell on imported cars, from about 80% to below 50%. Tariffs will keep going down gradually to 25% by 2006. Imports have surged, and a price war is now ravaging domestic car makers.

This irks Beijing's Communist leaders. They have hinted that they would like 90% of China's cars to be produced at home. Eric Harwit, a professor at the University of Hawaii, says they are contemplating South Korean- or Japanese-style protectionism: red tape and other non-tariff barriers. A more immediate problem is protection at local rather than national level, which is rife. For instance, officials in Wuhan, an industrial city, have given tax breaks to anybody who buys cars made in the local car plant.

For two decades, China's central and provincial governments have used such policies to entice multinational car makers to partner with Chinese firms and manufacture locally. The foreigners put up the capital and technology, but the Chinese kept control. Some of these joint ventures have been disasters. The oldest, involving what is now DaimlerChrysler, is still losing money after 19 years. Another ended in 1997, when France's Peugeot pulled out after 12 miserable years.

But others have been successes. Honda, which took over the plant Peugeot left behind, is making more profits on each of its Chinese-made Accords than on those made anywhere else. The joint venture of Germany's VW is also profitable, and has captured over half the Chinese market for passenger cars, in part by turning China's fondness for protection to its own advantage. Shanghai's local officials, for instance, have made sure that the city's taxis are Santanas from VW's Shanghai plant.

In theory, China's accession to the WTO should soon make life easier for foreign investors. From 2003, for instance, the foreign partners will be allowed to decide what models to make in the plants, and may even take controlling stakes in their joint ventures. And provincial governments will be allowed to approve investments up to $150m instead of $30m, the current ceiling. But although quintupling investment ceilings may sound generous, in a modern car factory even $150m barely buys the paint. General Motors spent $1.5 billion on its plant in Shanghai.

This raises a more fundamental problem with China. Car making is more capital-intensive than labour-intensive. The logic that is driving other manufacturing industries to move production to China—skilled but very cheap labour—therefore does not apply. In the car industry, indeed, China has one of the worst cost structures anywhere. Supply chains are inefficient, distribution systems fragmented. Worse, some two-thirds of the replacement parts for VW's Santana are pirated, and a “VW” headlight retails at about a tenth of VW's official price tag. There is not a single car plant in China, says Paul Gao, a consultant from McKinsey's Shanghai office, that has economies of scale.

Hence the quandary for multinationals: importing will remain hard, but so will local production. Some car makers are trying to hedge their bets. Toyota, for instance, is importing from its super-efficient plants in Japan, but is also ramping up production in Tianjin, on China's coast. BMW is in discussions to make, as well as import, its 3-series in China.

Mr Gao has a more radical idea. Making cars in China may be a losing proposition, but marketing car designs and brands, offering after-sales services and, not least, providing finance to Chinese car buyers might be lucrative. Barely noticed in the WTO deal are provisions to allow foreign car makers to offer car loans. So why not outsource assembly to the Chinese, keep fixed assets elsewhere—and perhaps make a killing in China after all?

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America's blue-collar temps

In a ditch

Apr 11th 2002
From The Economist print edition

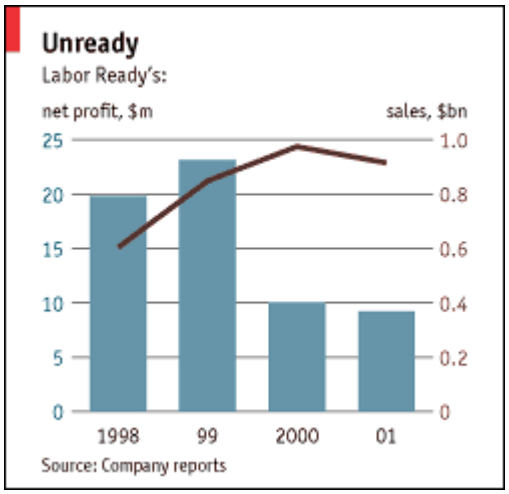
Supplying temporary workers proves a rocky business

AMID the “new economy” of the 1990s, Glenn Welstad and John Coghlan made their mark in an age-old, bricks-and-mortar business. The company they built, Labor Ready, was quickly dubbed “the McDonald's of day labour” and remains America's only national firm devoted to placing blue-collar temps. But like so many high-flying gambits of recent years, Labor Ready has fallen on hard times—and recession is only partly to blame.

The firm recruits workers from unemployment offices, homeless shelters and through word-of-mouth, then sells their labour at a marked-up rate to public agencies and private companies, ranging from tiny businesses to Wal-Mart. Workers typically get the minimum wage for hard physical labour: digging ditches, tossing boxes and performing unskilled, often dangerous construction work.

By 2000, Labor Ready had cornered the $16 billion American day-labour market, with 700,000 temps on its books (drawn by its promise of “work today, cash today”) and annual revenues of almost $1 billion (see chart). Yet its profit margin, once 3.3% of sales, is now a paltry 1%, and the firm's share price, over $24 in 1996, has fallen to $5. Revenue is now shrivelling as Labor Ready shuts underperforming branch offices to rein in costs. Half the firm's net profits in 2000 came from its cash-dispensing machines, which charge temps a fee of around $1 to receive their pay in cash.

What went wrong? The recession has taken a big bite out of the firm's business. To some extent, though, Labor Ready has been a victim of its own success. Exploding from 200 branch offices in 1996 to more than 800 in 2001, the company over-reached. As chief executive, Mr Welstad “became intoxicated with the echo from Wall Street of his rhetoric,” says Charles Gunther, who analyses the company's shares for Wells Fargo, a bank. Then, in 1998, Labor Ready replaced most local sales staff with a centralised telemarketing system. In a business in which success depends largely on customer relations, this was not a smart move.



Worse, Mr Welstad was pushed out in July 2000 for taking a $3.5m unauthorised loan from the company to cover a margin call. By September 2001, his replacement, Dick King, had also quit as the company continued to founder.

Labor Ready's troubles may suggest a more fundamental limitation of day labour. Even when demand is healthy, making profits at the bottom of the labour market can be tough. Agencies cannot price blue-collar labour much above the minimum wage. “Pick-and-shovel labour is and always has been a commodity. If they mark it up too high, the clients will say screw you, we'll do it ourselves,” says Mr Gunther.

Another problem is that injuries are widespread in the jobs that Labor Ready's workers do. Some 10,000 of its temps were hurt while working last year. Workers' compensation insurance can quickly eat into revenue. “Because all they do is manual labour, their workers comp is going to be higher than a regular staffing firm,” says Bruce Steinberg of *Global Staffing Industry Report*, a trade paper.

The firm's insurance costs rose sharply when auditors from Washington state handed Labor Ready a $734,000 bill for underpayment of premiums to the state-run workers' compensation system. The company is appealing, but more than 20 other states are now investigating alleged underpayments

caused by misclassifying construction jobs as clerical or other positions in which accidents are fewer and insurance rates lower. Company officials insist that there has been no intentional misclassification.

Despite all this, Labor Ready remains the undisputed day-labour industry leader, for now. Adam Waldo of Lehman Brothers argues that the firm has done better than many other temp agencies in the recession. Yet, so far, Labor Ready has not benefited from America's economic recovery. Joseph Sambataro, the new boss, has closed more sluggish branches, but the day-labour market has become fiercely competitive and overserved. Labor Ready's best days may be behind it.

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The Internet

Listing again

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A way to turn telephone numbers into web addresses is proving controversial

FEW things cause more trouble in the online world than lists. The body overseeing the Internet's domain-name system, ICANN, keeps making unfortunate headlines; recently, one of the group's own board members sued it to open its books. Now another electronic directory has become a bone of contention: ENUM, a way of turning telephone numbers into Internet addresses by converting the numbers into domain names ending in .arpa.

This convergence, everybody agrees, is a good idea. It would give a boost to Internet telephony and foster interesting new services. Instead of listing everything from mobile-phone numbers to instant-messaging addresses on business cards, people could hand out a single telephone number. An ENUM service would then make sure that calls were routed to their telephone and e-mails to their inbox.

To take advantage of this, users must register their telephone number and other contact details with an ENUM provider. Among the firms testing the technology are NeuStar, which runs the North American telephone-number system, and VeriSign, which runs the registries for domain names ending with .com and .net.

Yet ENUM is also the point where two conflicting worlds of regulation meet. Although competition is now the rule in telecoms, phone numbers themselves are still highly regulated. Domain names, on the other hand, are mostly self-regulated by web users, through ICANN, and are a profitable business for VeriSign and others.

Small wonder that the result has been friction. To minimise it, the Internet Engineering Task Force, the standards body that came up with ENUM, has proposed a compromise. In cross-border matters, the International Telecommunication Union, through which governments co-operate on telephone numbers, would be in charge. But nationally, governments would decide how much competition to allow.

So far, things have moved slowly. Some countries, such as China and France, are unhappy with the .arpa part of the proposed .arpa suffix for ENUM numbers (e164.arpa). The French perceive .arpa as controlled by America's Commerce Department, and are pushing for .int instead.

In the United States, the regulatory debate has proved even more grinding. At issue is whether there should be a master ENUM directory or several competing ones. Competition would spell chaos, says NeuStar. A call might confusingly be routed to several different telephone numbers if rival directories assigned the same number to different ENUM providers.

Not so, argues VeriSign. Not least to protect themselves against lawsuits, it says, competing ENUM registries would have an incentive to make sure that a telephone number could be registered only once, and only by its rightful owner. What is more, a government-sanctioned monopoly registry would take years to get going and be likely lead to high prices—all of which could slow the adoption of ENUM.

Neither side's arguments are without self-interest, observes David Fraley of Gartner Dataquest, a market-research firm. If America opts for a single registry, NeuStar would probably be its administrator—not just because it already runs the telephone-number system, but also thanks to its political connections (the firm was spun off by Lockheed Martin, a defence contractor, in 1999). Competition among registries would benefit VeriSign, which dominates the domain-name business.

Ultimately, Mr Fraley predicts, there will be a single, regulated registry. This, however, will not end the debate about ENUM. Already, advocacy groups are voicing strong privacy concerns. The technology, they

worry, could be used to create an Orwellian universal identification number, and would allow telemarketers to bother consumers on every device. It might not be long before ENUM replaces ICANN as shorthand for frustration.

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Venture capital in America

Sharing the pain

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The first of two articles on private equity looks at the humbling of America's venture capitalists, the second at Europe's maturing buyout market

START-UPS are risky—except, you might say, for venture capitalists. Although investors and entrepreneurs have suffered badly over the past couple of years, venture firms have collected more fees than ever for managing their funds.

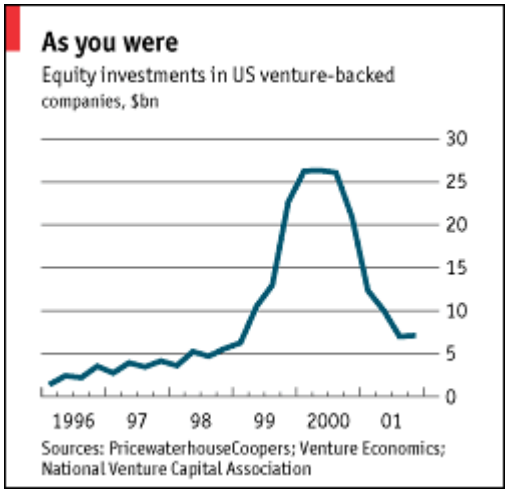
Until now, that is. The funds' limited partners (mostly pension funds, university endowments and rich individuals) are now pressing the venture capitalists to share the pain—with some success. In recent weeks, several leading Silicon Valley venture firms have announced changes that amount to accepting a pay cut.

Mohr, Davidow Ventures was the first to take that step, by reducing its most recent fund from $843m to $652m, thus lowering the management fees its limited partners have to pay. Then Kleiner Perkins Caufield & Byers, the alpha males of venture capital, in effect cut their fees by a quarter. Accel Partners is proposing to split its $1.4 billion fund in two, forgoing fees on the second half until 2004. Cue *Schadenfreude* among those who blame venture capitalists for the dotcom bust.

Venture firms make money in two ways. They get a share of a fund's profits (the “carry”), and they also earn a percentage of the capital committed in management fees, regardless of whether the capital is actually invested. Traditionally, the carry was 20-25% and the fee 1.5-2.5%, depending on a firm's record. An average venture firm managing a $200m fund could thus make $4m in annual fees, which sounds quite reasonable.

With the dotcom boom, however, things got out of hand. Venture firms started demanding a higher carry and higher fees. More importantly, the funds exploded in size, often reaching more than $1 billion. Some venture capitalists, dubbed “drive-by VCs”, ended up sitting on more than a dozen company boards.

Investors were happy so long as the money could be invested quickly and yielded a healthy return. Since the Internet bust, however, general partners have had a harder time investing the money they have raised: undeployed venture capital is estimated at $45 billion in America alone. Venture capitalists are spending most of their time trying to salvage start-ups in their portfolios rather than seeking out new targets. The average portfolio has lost over a third of its value in the past year.



All this is particularly painful for the limited partners, most of them entrepreneurs, who invest their own money. What seemed a small commitment in boom times is increasingly a significant portion of an individual's net worth—which is why Kleiner Perkins Caufield & Byers cut its fund. Other firms, such as Benchmark Capital, appear less understanding, a fact that has led Eric Greenberg, founder of Scient, an Internet consultancy, to attack the firm publicly.

Might such conflicts lead to a wave of lawsuits between limited and general partners? Investors recently sued MeVC and idealab to get back some of their cash. But these are special cases: MeVC is a publicly traded venture fund and idealab an incubator. Other venture firms are working hard to avoid court fights, to preserve precious relationships with investors. Some venture firms may vanish, though. The Barksdale Group, founded in 1999, has called it quits. Others may follow once their current funds have been

invested.

If there is a lesson in all this, it is that limited partners need to think twice about what they sign up for. The people who run the funds, for their part, should realise that there are limits to how much money a firm can reasonably manage.

The venture business will no doubt see better days again. In fact, although investments reached a new low in the first quarter, venture firms are starting to put money into brand-new firms again, particularly in biotechnology. But it is unlikely that venture capitalists will regain star status soon. That doesn't seem to worry them. As one puts it: “It's nice to be back in an era when the VCs are only nominees for best supporting actor instead of best actor. Entrepreneurs should be centre stage.”

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Economist.com BUSINESS
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European buyouts

Growing pains

Apr 11th 2002 | PARIS
From The Economist print edition

The European market for buyouts is suffering because it is almost mature

THESE are tough times for people who specialise in management buyouts (MBOs). In Britain, which accounts for around half of Europe's buyouts by volume, activity has slowed sharply in the past six months—hence this week's flurry of interest in the planned flotation of HMV Media, a high-profile exit from a past MBO deal. In France, a busy market for several years, 2001 saw a decline in activity, and there has been no pick-up since. And in Germany, where corporate restructuring once promised to unlock a host of deals, there were a mere 20 or so MBOs last year, compared with 48 in 1999.

Has the buyout fallen out of favour? Not at all, argue specialists. MBOs, far from being outmoded, are simply experiencing the pains that mature businesses typically feel from the economic cycle.

One sign of growing maturity is the scale of buyout activity compared with a decade ago. In 1992 buyouts accounted for around 40% by value of the *euro*4.7 billion ($4.1 billion) of private-equity investment in Europe. Last year, according to 3i, a British venture-capital group, there were around 300 European buyouts worth a total of *euro*23 billion—and this figure captures only deals worth *euro*800m or less. Bigger deals, such as the *euro*2 billion MBO of Yell, a directory company bought out from British Telecom last June, probably pushed the total to more than *euro*30 billion.

Another sign of the market's maturity is that Europe boasts a far richer variety of deals than America, where private equity flows more to start-ups than to established companies (see article). In America, buyouts will forever be associated with highly leveraged deals such as the notorious takeover of RJR-Nabisco in 1987. In continental Europe, the buyout mechanism is more subtle.

For one thing, venture capitalists have to be sensitive to deep-rooted attitudes among company owners. John Singer, a partner with Advent International, recalls that German company owners found MBOs terrifying as recently as a decade ago. “On one side there was strong awareness of companies' social responsibility to employees, while managers viewed equity as intrinsically less valuable than their counterparts elsewhere,” he says. But fears that buyouts would lead to mass layoffs as greedy managers snatched control from benign owners proved unfounded. Research by the European Venture Capital Association shows that, after a buyout, a typical company not only hired more workers, but also paid higher wages.

The thawing of attitudes led to a steady stream of deals across Europe in the second half of the 1990s. Buyouts became accepted not just in bigger economies but also in relatively underdeveloped markets. Ramon Carne, a partner with Mercapital, a group that pioneered private equity in Spain, says that the money on tap for buyouts there has grown by 80% to *euro*5 billion over the past six years.

Buyouts play different roles in different countries, depending on their industrial structure. In Spain and Portugal, for example, many opportunities have arisen as companies have sought a new impetus when an older generation of managers has retired. Anodil, a Portuguese maker of aluminium products, was bought from its founder and owner in 1998. Baron de Ley, a Spanish wine maker, used an MBO in 1991 as a platform from which to consolidate and modernise the sleepy business of producing Rioja wines.

Many other buyouts have helped to consolidate fragmented European industries. One example is GuardianIT, bought out of ICL, a British computer group, in 1994, which has made a series of acquisitions to become one of Europe's leading providers of disaster-recovery services.

Venture capitalists say that it is still common in much of Europe for companies to expect continuing help following an MBO. Advent International and 3i are often involved at board level, shepherding their

investments to the point where a stockmarket flotation or other exit is possible. In America, by contrast, the start-ups that most venture capitalists concentrate on tend to be floated more quickly.

Experience with MBOs might also explain why European buyout funds have generated higher returns than their American counterparts in recent years. Locals have noticed: European institutional investors provided three-quarters of the *euro*47 billion that was raised in 2000 for private-equity investment in Europe, and around half that sum is destined for buyouts. The easy availability of money to invest means that maintaining high returns will be a tough challenge. Final evidence, perhaps, that the European market for buyouts has grown up.

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Face value

Generic gadfly

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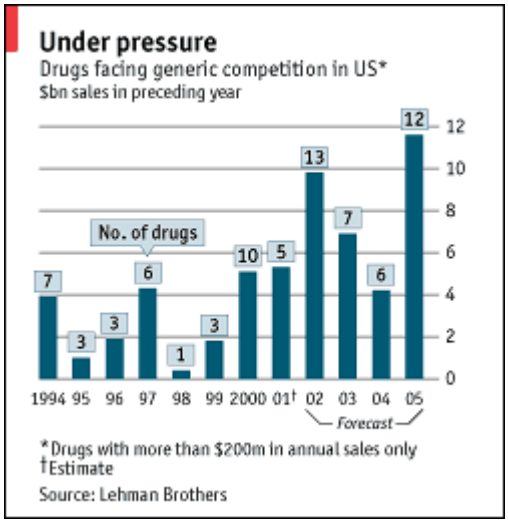
Barry Sherman and his generic-drug company, Apotex, have put Big Pharma in a tizzy

TO HIS supporters, Barry Sherman, chairman of Apotex, a Canadian maker of generic drugs, is an indefatigable champion of low-cost drugs against profiteering patent-holders, as well as a generous philanthropist whose millions fund universities and hospitals. To his detractors, Mr Sherman is a shameless copy-cat who seeks to misappropriate the hard-won intellectual property of research-oriented drug companies. Yet Apotex—with only 4,200 employees and C$600m ($376m) in annual sales—is a midget compared with the giants of the pharmaceutical industry. So why is Mr Sherman so controversial?

In a single word: litigation. Apotex is famous for suing anybody who tries to stop it selling a generic version of a bestselling drug. No matter that the inventors' patents may have years to run; Mr Sherman is a master at picking holes in such claims, and then pursuing his interests in court. His company is embroiled in almost 100 lawsuits and spends more than $10m a year in legal fees.

Although Mr Sherman's tactics are certainly aggressive, many of Apotex's battles are simply occupational hazards. A piece of American legislation known as the Waxman-Hatch act encourages generic-drug companies by rewarding the first copier off the mark with six months' market exclusivity once a patent expires. But patent-holders are more reluctant than ever to lose control over their drugs, given that a record number of the industry's blockbuster drugs now face generic competition (see chart).

This is why brand-name drug companies are striking back, filing additional patents to extend their grip, and then suing any generic challengers for patent infringement. Such retaliation is encouraged by a twist in the law that triggers a delay in the regulatory approval of any generic drug of up to 30 months if a lawsuit has been filed. At this point, Apotex usually countersues a patent-holder for damages, and so the destructive dancing continues. American lawmakers are now considering reforming Waxman-Hatch to put a stop to the ball.



Government is, however, another of Mr Sherman's targets. Apotex routinely takes on Canada's federal health ministry for failing to approve its generics, or the provincial governments for restricting reimbursement of its drugs. Mr Sherman speaks warmly of the 1970s, when he started Apotex and the government's patent policy favoured domestic firms. Now he complains that the politicians are in hock to foreign drug giants.

Although Mr Sherman likes to present Apotex as a plucky underdog, some recent events suggest otherwise. Six months ago, Apotex managed to sell the Canadian government C$1.5m-worth of ciprofloxacin, an antibiotic to treat anthrax, even though the patent still belongs to Germany's Bayer. The ensuing scandal made the government look panicky and reinforced Mr Sherman's reputation as a wily operator.

Imitation, not flattery

While they may deplore his tactics, many of Mr Sherman's opponents grudgingly admire his stamina. In January, Apotex lost a legal battle against Bayer over a cardiovascular drug, but only after years of brawling in the courts. Such persistence often pays. Last year, Prozac went off-patent after a fierce legal battle between its inventor, Eli Lilly, and Barr Laboratories, a generic firm. By the end of the year, Barr had raked in $312m in sales of copy-cat Prozac. Almost half of that was shared with Apotex, which first came up with a generic version of the drug and helped to break Eli Lilly's hold. Mr Sherman has a 25% stake in Barr.

On top of his windfall from Barr, Mr Sherman owns 90% of Apotex, which in turn has a majority stake in Cangene, one of Canada's few profitable biotechnology firms. All this makes Mr Sherman one of Canada's wealthiest men, worth an estimated C$2.5 billion. But he is happier earning money than spending it. When his wife replaced his ancient Cadillac with a brand new BMW as a birthday surprise, he had the gift towed away and his old car returned.

Mr Sherman's obsessive ambition is to turn Apotex into one of the world's leading drug makers by 2020. The company already sells more than 180 drugs in 115 countries, but Mr Sherman hopes to expand further into Europe and in America, where generics now account for more than 40% of all prescriptions. At the moment, America makes up only one-tenth of Apotex's sales. Although consolidation is sweeping through the generic industry, Mr Sherman plans to keep Apotex independent and in private hands.

But this may prove increasingly hard as the company dabbles in novel drugs. Not only is discovering and developing new drugs a lot more expensive than reformulating existing ones; selling them also requires costly marketing to doctors and patients, rather than cheaper marketing to pharmacists.

Apotex spends a mere C$115m a year on research and development, mainly on generic products. Its most recent foray into making original drugs—deferiprone, a blood-disorder medicine—made headlines when its chief clinical investigator, Nancy Olivieri, claimed that the treatment was doing more harm than good, and that Apotex was putting prestige ahead of patients.

Deferiprone is now on sale in Europe, although Dr Olivieri is challenging its approval. Mr Sherman plans to apply for regulatory approval in America and Canada soon, and Apotex also has two successors in the works. Despite his attacks on brand-name drug makers, Mr Sherman is willing to appropriate their strategies to extend the patents on his own drugs when the time comes. With typical candour, he says that the only lesson he has learned from the deferiprone drama is not to deal with “mentally imbalanced” researchers. Not surprisingly, he and Dr Olivieri are suing each other in court.

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Oil prices

Flaring up?

Apr 11th 2002
From The Economist print edition

Might recovery around the world be checked by dearer oil?

Get article background

THE spectre of another oil crisis all of a sudden looms large, and this at a time when the world economy has barely begun to recover from last year's recession. There are fears that conflict in the Middle East could once again send oil prices sharply higher—and send world economic output tumbling. To judge by the rise in oil prices thus far, such fears are overdone. But do not underestimate the power of oil.

Between December and last week the price of West Texas Intermediate crude rose from $18 to almost $28 a barrel, before slipping back somewhat. Some of the increase is due to stronger demand as economies pick up, but most reflects tensions in the Middle East and the risk of a supply shortage. This week Iraq announced that it is suspending oil exports for a month, in protest against Israel's invasion of Palestinian areas of the West Bank. Iran and Libya have muttered about following suit, though not with conviction. Concerns about an oil shortage have been sharpened by a politically motivated strike in Venezuela, the world's fourth-biggest oil exporter, which has disrupted production (see article).

None of this, however, yet adds up to an oil crisis. Saudi Arabia, the world's biggest producer, has firmly rejected the idea of an Arab oil embargo. It is likely to pump out more oil if prices continue to rise, since it is in the kingdom's interest to stabilise prices in order to preserve long-term demand. Saudi Arabia and Kuwait, which is also unlikely to join any oil embargo, together have almost 4m barrels a day of spare capacity. That should be enough to offset any prospective shortfall from Iraq and Venezuela, which have been exporting 1.7m and 2m barrels a day respectively.

If Libya and Iran joined a putative embargo, however, that would create a further shortfall of 3.5m barrels a day—too much even for the Saudis, as swing producers, to fill. Spare oil capacity outside OPEC might fill the gap eventually—but in the short term, the oil price would soar.

Economists have accordingly pulled out their ready-reckoners for how various oil-price rises might affect growth. The world is less dependent on oil than it was, thanks to improved efficiency in the use of energy and to a shift away from heavy industry. Yet oil still has the power to shock.

Over the past three decades oil prices have jumped sharply on four occasions: in 1973 after an OPEC embargo, in 1979 after the Iranian revolution, in 1990 after Iraq's invasion of Kuwait, and in 1999-2000 as the world economy boomed and OPEC cut its production. Each time oil prices more than tripled, and a downturn in the world economy followed. America's recession last year was caused largely by the bursting of the high-tech bubble, but the rise in the oil price over the previous two years, from around $10 a barrel to a peak of $37, surely played a part.

Compared with previous oil crises, the recent jump in the oil price has been modest. The present price is still slightly below its average of $28 a barrel in 2000-01. In real terms, oil costs less than half what it did at its peak in 1990. But if the price rose much above $30 and stayed there, it would dent growth. The OECD estimates that a rise in oil prices of $10 a barrel would increase inflation in rich countries by half a percentage point in the first year and reduce growth by quarter of a point. The impact on Europe and Japan would be bigger than in the United States. America guzzles more oil, but it is also a producer, so

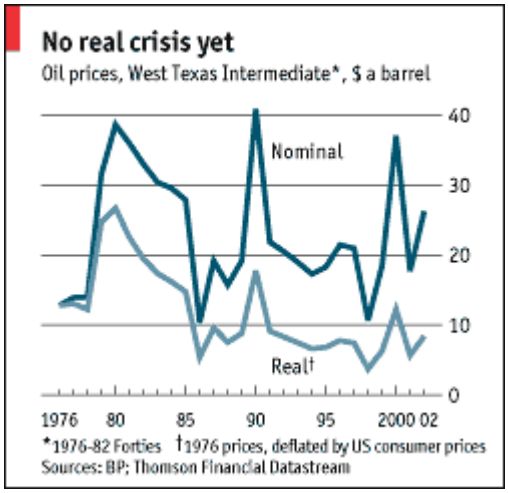
its net oil imports are smaller.

The economics team at Morgan Stanley has looked at several scenarios. On the worst assumptions, it calculates that if prices rose to $40 a barrel and stayed there until the end of the year, world growth in 2002 would be cut from 2.6% to 1.8%, the same as in 2001. If that happened, 2001 and 2002 would be the slowest two consecutive years ever of recorded growth.

Slippery numbers

The snag with ready-reckoners is that they look only at the direct impact, and ignore the possible effects of a jump in oil prices on consumer and business sentiment—or on share prices. By many measures, America's stockmarket remains overvalued relative to any likely future growth in profits. An oil-price hike might quickly bring share prices back down to earth, with more severe consequences for growth.

The impact of oil prices also hangs on how central banks respond. Conventionally, a rise in oil prices is thought to be inflationary, so the correct response from central banks is to raise interest rates. Higher oil prices certainly push up the headline inflation rate. But in the longer term, the impact is more subtle.



Higher oil prices affect economies in two main ways. First, a rise in oil prices delivers a negative supply-side shock. It raises firms' input costs: for any given output price, firms therefore produce less. Second, a rise in oil prices represents a shift in the terms of trade from oil-consuming countries to oil producers. As a result, real incomes and spending are reduced among the oil consumers. The overall impact on world demand depends on whether oil exporters save their windfall or spend it on imports from oil-consuming countries.

In economists' jargon, a rise in the oil price produces a downward shift in both aggregate supply and aggregate demand. This implies a fall in output, but the impact on underlying inflation is not clear-cut. Several factors are at play: notably, whether higher headline inflation feeds into higher wages.

Whether central banks should raise interest rates to prevent higher inflation or cut rates to cushion the slowdown depends partly on the cyclical position of the economy. If the economy is already overheating, with squeaky tight labour markets, a rise in oil prices is more likely to feed into wages and push up core inflation. Central banks might then need to tighten policy. The four previous big oil-price hikes all took place in inflationary conditions at a late stage of economic booms. In today's environment, where spare capacity is ample and firms have little pricing power, higher oil prices are much more likely to squeeze profits than to push up inflation. This underlines the risk that the chief impact of higher oil prices might come through a slump in share prices.

Economists at CSFB think that the European Central Bank is likely to raise interest rates if higher oil prices push up the euro area's headline inflation rate, which is already above its official ceiling of 2%. On the other hand, America's Federal Reserve, CSFB says, is less likely to worry about the threat to inflation from higher oil prices than about the risk of slower growth.

That is probably right. Although America's economy grew by an estimated 5% at an annual rate in the first quarter of this year, that was largely because companies rebuilt their inventories. Business investment is still weak, and a robust recovery relies upon debt-laden consumers continuing to spend. If higher oil prices and a slump in share prices were to squeeze spending by households and firms, America could easily tip back into recession. With interest rates already as low as 1.75%, the Fed has little room to cut further.

Were oil prices to stay around their present levels, this would be a mere bump in the road for the world economy, rather than a head-on crash. But if prices climb higher, the risk to growth would come from another fall in share prices and the failure of some central banks to recognise that they do not need to tighten policy.

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Wall Street

What glitters ain't gold

Apr 11th 2002 | NEW YORK
From The Economist print edition

Drawing a bead on Merrill Lynch

AP

Spitzer talks up his book

THERE are two theories about Wall Street's role in the bubble years of the new economy. Either investment analysts were swept up, like everybody else, in the prospect of extraordinary gains in efficiency that the Internet would bring, so justifying ever higher share prices. Or Wall Street saw a golden chance to peddle dirt.

New York's attorney-general, Eliot Spitzer, is a promoter of the second theory. On April 8th he delivered an affidavit to the state's supreme court that paints Merrill Lynch's share-buying recommendations for Internet companies during 2000 as little more than a pretext to stuff gullible buyers with the shares of rotten businesses. (Big customers, meanwhile, were whispered the truth.) Mr Spitzer claims to want court authorisation to force changes in the way Merrill carries out its investment research. Other firms, including Morgan Stanley and CSFB, are reckoned to be in the attorney-general's sights.

Mr Spitzer builds his case largely on the basis of e-mails submitted upon request by Merrill. “The whole idea we are independent from banking is a big lie,” writes one analyst. Analysts never recommended that investors sell a company's shares. “Buy” and “accumulate” recommendations were plentiful, even when Merrill's Internet analysts, led by Henry Blodget, believed the company to be hopeless. The shares of excite@home, rated as a short-term accumulate and long-term buy, were described in internal e-mails by one Merrill Internet analyst as “such a piece of crap”. Nothing was interesting, said Mr Blodget about GoTo.Com, a long-term buy, “except banking fees”. Of InfoSpace, both a short- and a long-term buy, the “stock is a powder keg”.

For Merrill, whose huge retail base is the core of the firm's business, the charges are horrifying. It contends that they are baseless, reflecting e-mails taken out of context. Also, it argues, the state attorney-general's office, which rarely probes Wall Street, misunderstands markets.

Certainly, grandstanding ambition seems to have shaped some aspects of the state's actions: the blustering way it has gone about bringing its demands, and the sometimes trivial nature of what it has requested. On April 9th prosecutors went before a judge for an emergency three-part order that was granted and announced with fanfare, along with the damning affidavit and an indignant press release. Headlines followed. Merrill, however, had no trouble getting the court to delay the state's demands.

Oddly, details of what the state wants from Merrill Lynch were not included in the press release or in the version of the affidavit released to the public. Merrill has not been charged with any crime, and so cannot vindicate itself or even fight the charges. The court orders, according to Merrill, demand nothing more than what it has been working towards in a series of changes decided on over the past year.

Thus, Merrill was told to disclose details of its investment-banking relationships on corporate-research reports, as well as the number of buy and sell recommendations for each industry. It was also told to co-operate with investigators. Already, Merrill underscores the likelihood of conflicts on all its research reports. And, according to the state's own affidavit, it has been co-operating with the investigation. Indeed, the state's entire case appears to have been built on e-mails that Merrill Lynch voluntarily handed over. Most of Merrill's Internet research team, including Mr Blodget, has already gone. Since nobody is buying initial public offerings of Internet shares, the market has handed down its own verdict and sentence.

The question, then, is whether Mr Spitzer has more to come, or has been seduced by the glory that accrues to prosecutors attacking Andersen and Enron. The rumour is that his office will file criminal charges, a serious matter. Merrill says that, at first, the attorney-general demanded it separate research from underwriting, a profound change. As it is, Mr Spitzer has been content to announce that the investigation continues and to add the tantalising detail that other firms have been subpoenaed. This lawyer knows how publicity helps a stock to rise.

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Auditors

Resisting change

Apr 11th 2002 | LONDON AND NEW YORK
From The Economist print edition

Audit firms pray for little change, and lots of Andersen clients

Get article background

BIG accounting firms may publicly lament the plight of Andersen, but they are cashing in on its demise. Every time a company dumps Andersen as its auditor—Oracle, a software company, is the latest runaway, to Ernst & Young—and picks one of the other firms, it looks like a ringing endorsement of the standards of the big four. In fact, not much clear water sits between them and Andersen.

A reminder of that came this week when it emerged that America's Securities and Exchange Commission (SEC) had warned KPMG and the partner who headed its audit of Xerox that it may file civil charges against them. Xerox, which fired KPMG last year, has agreed to pay a $10m civil penalty and to restate its financial accounts back to 1997 after booking false revenues. Andersen had a run of bad audits before Enron, and this, together with its shredding of Enron-related documents, sets it somewhat apart from the others. But all the firms have aggressive clients and particular offices that they worry about, notes David Cairns, a former head of the International Accounting Standards Committee.

So far, the other firms are benefiting from Andersen's troubles. Of the 150-odd companies that have deserted Andersen to date, most have gone to one of the big four, according to Auditor-Trak, a service of Strafford Publications in Atlanta. Smaller audit partnerships, such as Grant Thornton and BDO Seidman, have managed to grab some audits but, because they do not try to serve multinational clients, they expect that their gains will be relatively small.

Outside America, Andersen's most attractive practices are being carved up by its four rivals, giving them in some cases an impregnable market share. In Singapore, for instance, Ernst & Young, with its new Andersen clients—if the deal goes through as expected—will audit about 200 of the country's 386 listed companies, three times as many as its nearest competitor. Deloitte Touche Tohmatsu, the smallest of the big four, has secured Andersen audit practices in Britain, Spain, Portugal and Latin America.

Meanwhile, the big four are lobbying hard against what they call knee-jerk regulation of auditing firms, particularly any call to stop them offering non-audit services to audit clients. In America they face proposed legislation. In Britain the trade and industry secretary, Patricia Hewitt, has announced a review of financial reporting and auditing. But most feel that the pressure on auditors has eased off a little. “The debate has started to mature,” says one partner who defends the industry before regulators and governments.

If some congressmen in America get their way, however, the audit profession faces radical change that could spread to other countries. A bill promoted by Senators Chris Dodd and Jon Corzine aims, among other things, to forbid provision of non-audit services to audit clients. It would set up a powerful new oversight body to set auditing and quality-control standards for the big firms.

To the relief of the big four, Harvey Pitt, chairman of the SEC, opposes such a radical reform. During December and January, in meetings with the big accounting firms, he hatched a plan for a private-sector independent group to oversee and discipline the audit profession. This has been criticised as weak by investor groups in America: the body would lack the power to subpoena evidence or witnesses, and it would include practising accountants—a step backwards from the Public Oversight Board, which itself is accused of lacking teeth. Nor does Mr Pitt favour any drastic narrowing of the services that accountants may offer to their audit clients.

For a while, it looked as though the plan for Andersen proposed by Paul Volcker, a former chairman of

the Federal Reserve, to recast it as a pure, audit-only firm, might prod others into change. But, with Andersen on its last legs in America, Mr Volcker's plan has probably lost the power to inspire reform elsewhere. If auditors manage to escape serious reform over Enron, says Lynn Turner, a former chief accountant of the SEC and now a professor at Colorado State University, another big firm may yet follow Andersen down. Better to bite the bullet now.

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Electronic trading

Death of a platform

Apr 11th 2002
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Online trading consolidates

FEAR and greed drove banks and software companies to back an absurd number of electronic trading platforms for bonds, foreign exchange and derivatives in 2000 and early 2001. The American Bond Market Association listed 150 of them, just for bond trading, two years ago. It still lists 81, but the number is dwindling daily. The fear in those days was of missing the technology train. The greed came from dreams of exponential growth and, sooner or later, a juicy public offering.

Last year changed all that. Bondbook, a platform backed by major dealers, closed in October. Last week Atriax, a platform for foreign exchange backed by the world's biggest dealers—Citibank, J.P. Morgan Chase and Deutsche Bank—said it would close. More of these trading portals aimed at big companies and investors will follow, until only two or three foreign-exchange platforms are left, plus a handful of platforms for bonds.

This does not mean that financial trading platforms are a failure. It is just that it has taken a while, and some costly experiments, to find business models that work. The leading dealers have put an estimated $1 billion into start-ups so far.

To little avail. Electronic trading of foreign exchange accounts for perhaps 1% of overall foreign-exchange volume of over $1 trillion a day—although the figures are largely guesswork in a world of jealously guarded real turnover.

However, for some of the banks' biggest customers, electronic foreign-exchange trading is increasingly important. According to Greenwich Associates, the companies and big investors that trade online do so on average for a quarter of their foreign-exchange business. That is too much to be ignored.

Banks are beginning to realise that they put the cart before the horse. They cannot just do electronically what they do in the telephone market: ie, make markets on the basis of their own speculative positions (and, by the way, front-run their customers—which they call “seeing customer flows” and which is quite legal in the foreign-exchange market). Now, they say obsequiously, they must do what their clients want: provide a transparent pricing service and maximum efficiency from first quote to final settlement.

The most contrite, Deutsche Bank, has said that it will not invest—unlike Citibank and J.P. Morgan Chase—in FXall, the surviving rival to Atriax. FXall is another big-bank consortium. Through its portal, customers can ask their own panel of member banks (so-called liquidity providers) for a foreign-exchange quote. Deutsche Bank will become a liquidity provider, but it wants freedom to play the field.

Two or three other multibank platforms have, or promise to have, reasonable trading volumes. FX Connect was started eight years ago by State Street, mainly for its fund-management clients. It has the biggest volume, around $6 billion a day, according to Tower Group, a research firm.

The nearest to that by volume (Tower says $1.5 billion a day, compared with $1.1 billion by FXall) is Currenex, a portal launched in March 2000 by Barclays, Royal Dutch/Shell and others. It aims to give customers a wide choice of bank counterparties by getting main dealers (hub banks) to take the credit risk on behalf of peripheral dealers (spoke banks).

Finally there is STN Treasury, offered by Sungard, a leading deal processor for company treasuries. It argues that straight-through processing of deals is the holy grail of online trading. No trading platform yet offers this, because it means adapting software to each customer's back office. Sungard may do it best, but finding banks to provide liquidity is a challenge. Sungard will not say what volumes it has

achieved since launching six months ago.

In ten or 20 years, say market participants, a handful of platforms will allow customers to trade multiple products, such as foreign exchange, bonds, deposits, derivatives and commodities, with maximum efficiency and immediate reconciliation with the back office. By that measure the adventure is only just starting. Bonds traded by end-users on the biggest platform, Tradeweb, total around $17 billion a day; foreign exchange traded on all platforms totals maybe $14 billion a day, and off-exchange derivatives traded electronically by customers are next to nothing.

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East Asia's economies

Ready to pounce

Apr 11th 2002
From The Economist print edition

Recovery is being led more by consumer spending than by exports

EAST ASIA'S tigers have looked more like flabby old cats of late. In the past five years the region has had two deep recessions. Barely had its economies recovered from the financial crisis in 1997-98 than America's information-technology boom, which greatly helped Asian electronics exports, turned to bust. Still, as in 1999, emerging East Asian economies are now recovering much more quickly than had been expected. Will the recovery prove more durable this time?

Average growth in East Asia, not counting China and Japan (or North Korea for that matter), fell to only 1.5% in 2001, its second-slowest rate in three decades. Singapore, the economy most dependent on electronics, suffered its worst recession ever, with GDP falling at an annual rate of 10% in the first nine months of the year.

Several economies now appear to be perking up sooner than was expected a few months ago. Singapore's economy grew at an annual rate of 3.8% in the first three months of this year, its second quarter of recovery. First-quarter GDP figures are not yet available for other countries, but everywhere except Hong Kong enjoyed some growth in the fourth quarter of last year. South Korea, which slowed sharply in 2001 but still avoided a recession, is now booming; some economists even think it may be overheating. Share prices in Seoul have almost doubled since their September lows.

The biggest immediate risk to recovery is a jump in the price of oil, on which several Asian economies are unusually dependent. In South Korea and Thailand, net oil imports amount to around 3% of GDP, compared with only 1% in rich economies. Assuming that oil prices remain around current levels, however, East Asia's prospects are brighter.

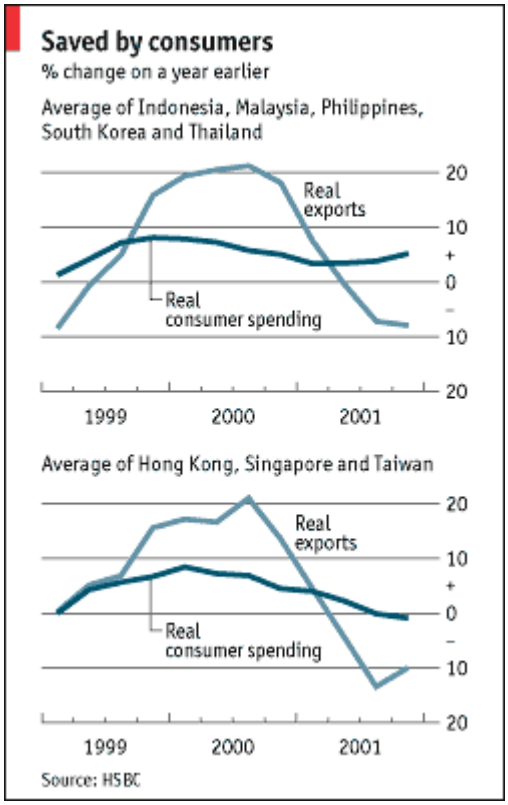
Economists are becoming increasingly optimistic about recovery this year, largely thanks to an upturn in America, which takes one-quarter of East Asia's exports. These have started to edge up, although they are still well down on their level of a year ago.

To the extent that Asia's economy has been driven in recent years by exports of IT equipment to the United States, a strong revival in American spending on IT might appear to be what the region hangs on. A long wait, if so. American consumers may be on a spree, but corporate spending on IT is likely to remain feeble this year.

In some places, however, the Asian recovery is being fuelled not just by exports, but also by strong consumer spending. Geoffrey Barker, an economist at HSBC in Hong Kong, argues that Asia is becoming less dependent on external demand. Unlike the 1999 recovery, consumer spending has picked up ahead of exports in South Korea, Indonesia, the Philippines, Thailand and Malaysia (see chart). Overall, consumer spending in these countries rose by 5% in real terms in the year to the fourth quarter, whereas exports fell by 8%.

In contrast, consumer spending in Hong Kong, Singapore and Taiwan fell over the same period. Not only have these economies been hit hardest by the worldwide slump in information technology. They have also been more reluctant than others to cut interest rates or to let their exchange rates fall—or less able, in the case of Hong Kong, whose currency is pegged to the dollar.

Consumer spending in South Korea rose by 6.5% in the year to the fourth quarter, but Hong Kong's consumers continue to tighten their belts thanks to deflation and rising unemployment.



Mr Barker concludes that if consumer spending remains robust, economies can continue to recover at a reasonable pace even without a strong rebound in IT spending in America. So long as exports at least stabilise, domestic demand can sustain growth.

If Asians are abandoning their traditional thrifty habits, one reason is the record low level of interest rates. Another is that Asian banks are eager to lend to consumers, whom they rate as a far better credit risk than debt-laden companies. Households now account for 37% of East Asian banks' total outstanding loans, up from 27% in 1997.

South Korea has seen the biggest surge in lending to households. Total household debt has risen by more than a quarter over the past year. The country shows how crucial it is to fix broken banking systems in order to achieve sustained growth. It has made more progress in disposing of banks' non-performing loans than have Thailand or Indonesia (or Japan, indeed), so Korean banks are now able to make new loans to both firms and households. However, even in Thailand, low interest rates and pushy banks have encouraged consumers to go on a spending spree. Borrowing to buy cars and houses, and the use of credit cards, have leapt.

Not even the cheeriest economists expect East Asia's rebound this year and next to be as brisk as in 1999 and 2000. Yet, governments should still take advantage of the recovery to complete structural reforms in the financial and corporate sectors. In order to bolster the domestic economy, they also need to free up the services sector, which in many places remains hopelessly tangled with red tape. By making domestic demand more resilient, East Asia would then be less vulnerable to future external shocks.

Without such reforms, the recovery stands on shaky foundations. A surge in consumer spending based chiefly on cheap credit is unsustainable. Banks eager for profits may be tempted into reckless lending—blowing a fresh bubble which will eventually burst.

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Hedge funds

Seeking to be respectable

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Hedge funds are fighting for their good name

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SOME 6,000 hedge funds vie for business, managing $500 billion worldwide. Yet the reputation of hedge funds grows no better. Ever since the near-collapse of Long-Term Capital Management in 1998, hedge funds have striven to get themselves seen as trustworthy vehicles for investment, fit for institutional money. But since then hedge funds have blundered, blown up or defrauded their investors at fairly regular intervals. Plenty of rich private investors enjoy the thrills and spills of hedge funds; they account for the bulk of investment. Institutional investors show much less faith.

The latest mess is the collapse in value of two hedge funds run by a high-profile money manager in New York: Kenneth Lipper, a movie buff credited with helping to create the main character in “Wall Street”, Gordon Gekko. Late last year Mr Lipper assured investors that his two convertible-arbitrage funds had gone up in value. In February, he admitted that they had actually lost $315m in 2001. Now, in a letter to investors, Mr Lipper concedes that the news is worse, with bigger losses still. There was nothing to do but to liquidate the funds, with losses at one of 45%.

Arbitrage between convertible securities (typically, bonds that can be converted into equity) and their underlying shares was meant to be one of the less risky of many hedge-fund strategies. The market risk of buying undervalued convertible securities was supposedly hedged by selling short shares in the same company.

Risks still have to be properly handled. Mr Lipper's managers held illiquid positions, which could not easily be sold when they started to lose value. The managers had no administrator to do a third-party check on their investment strategy. As a result, they seem to have priced their positions internally—and very inaccurately.

Since the Lipper mess came to light, other hedge-fund managers have rushed to calm investors' worries. Many have sent out letters explaining how they manage risk: aiming, for instance, to produce consistent returns rather than the stellar ones that come with higher risk. Funds of funds, which invest on behalf of clients in a spread of hedge funds, now boast about the due diligence they carry out.

Some even hire private investigators to check on fund managers' backgrounds. Thanks to the industry's opaqueness, with most funds set up offshore, it attracts unsavoury characters, investors included. They range from convicted drug dealers and money managers, fired from more orthodox fund managers for falsifying academic records, to money-launderers. Last week the Managed Fund Association, an industry body, published extensive anti-laundering policies for hedge funds.

In spite of the hedge-fund industry's efforts to curb fraud, a whiff of scandal is hard to dispel. Michael Berger, an Austrian, is still on the run after his Manhattan Investment Fund blew up in 2000, with losses of more than $400m. A year ago Michael Fanghella absconded with more than $100m from PinnFund, where he was chief executive. Regulators are uneasy. In a speech last month Paul Roye, director of the Securities and Exchange Commission's investment-management division, warned investors about the growth in hedge-fund fraud.

And when honest hedge funds properly manage their risk? Harry Kat, at the University of Reading, looking at 455 hedge funds between 1994 and 2001, has shown how including a spread of hedge funds in a portfolio of bonds and equities alters its risk-return characteristics. Intriguingly, the resulting portfolio can significantly reduce the risk of losses—but only by producing more mediocre positive returns. Mr

Kat's conclusion is that hedge funds are probably better suited to cautious institutional investors than to more risk-prone rich individuals.

Even then, the risk-return characteristics only come into play if much more is invested in hedge funds than the 1-3% of their portfolio that institutional investors typically consider now. Given the jitters over hedge funds, institutional investors will take some persuading.

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Economics focus

A price for pain?

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When economists think about compensating victims, even Janis Joplin has her say

RIGHTING wrongs is surely not the province of economists, but of philosophers, poets and judges; economics is best left to deal with questions of money and prices. Still, in some recent cases, such as compensation for terrorist attacks or lawsuits seeking reparations for American slavery, economists have been busy placing a value on victims' losses. In American courtrooms at least, economics increasingly helps to shape the law.

One goal of justice is to make a victim “whole”—that is, to restore a person or a company to financial health, as if the wrongdoing had never occurred. This is easier said than done, particularly if the bad deed happened long ago. There is also the thorny question of whether a crime (and hence the compensation that is calculated for it) should be viewed with the benefit of hindsight.

Consider a hypothetical example. Imagine you went to school with Janis Joplin in the 1950s, long before she became a rock star. Before you graduated, a thief pinched your school yearbook containing Joplin's signature (original value, meaning what others were prepared to pay for it: $5). Years after her death, Joplin's fame has raised the market value of your lost book to $1,000 today. Other yearbooks, with no famous signatures, are utterly worthless. Imagine, now, that all these years later you catch your thief, minus the yearbook. How much compensation are you due?

Franklin Fisher, an economist at the Massachusetts Institute of Technology who once posed this puzzle, thinks you deserve not $1,000 but $5, plus bank interest. Though this strikes many people as unfair, Mr Fisher argues that the book's original market value, $5, had embedded in it the tiny chance that one of its signatures might one day turn into gold, as well as the more likely possibility that it might contain only worthless signatures.

If you disagree, imagine that another thief had stolen from its owner a yearbook without the famous signature. Surely it would be unfair to give nothing to this victim and $1,000 to you, when both books had the same value at the time of the theft? As a matter of economics, using hindsight to award compensation is therefore unfair, because it ignores risk and uncertainty. It assumes that bets always work out in a victim's favour.

Sometimes, however, the law seeks to claw back criminals' ill-gotten gains from the past. For a yearbook thief who has sold his Joplin-autographed booty for $1,000, this is unappealing. For companies, it might mean giving back profits made from illegal acts. A recent lawsuit in New York, brought on behalf of American blacks (see article), is structured in just this way. It seeks to recover money from banks and insurance companies that, the plaintiffs argue, assisted slavery. It wants them to cough up for slave-generated profits from before 1865 that have allegedly been invested in their businesses since.

Forty acres and a mule

Slavery in America exacted a terrible human toll. For a long time most economists thought that slavery was not just bad, but also inefficient. Then in the 1970s, an economist at the University of Chicago, Robert Fogel, estimated that the economies of America's slave-holding states were actually 9% more productive than those of free states, work which later won him a Nobel prize. Although morally appalling, slavery turns out to have been good economics.

But what was the financial cost borne by the slaves themselves? One measure is the difference between slaves' wages and those of free workers with the same skills. Mr Fogel reckons that, between 1780 and

1860, just before the American civil war, slaves were paid (in food, shelter and so on) around 10% less than similar free workers. He estimates a cumulative bill for slaves' expropriated wages of $24 billion in 1860.

Compound interest on this sum for 142 years has a massive effect. A risk-free interest rate of 6% a year, which is what Mr Fogel estimates is the long-term rate, brings the cost to $97 trillion, more than nine times the size of America's economy today. Awarding interest of just 3% a year would cut the total bill to $1.6 trillion, not far from damages cited in the current lawsuit. These figures are merely for lost wages. They do not take into account other pain and suffering caused by slavery, which is harder to calculate.

If the principle of reparations were ever agreed upon, what of ascertaining who were the beneficiaries of slavery? Slave-owners make the likeliest targets, yet only 5% of American households had slaves. What is more, owners received only a small fraction of the benefits from slaves' forced labour. Most of the gains, Mr Fogel reckons, were passed on to consumers in Europe (and England in particular) in the form of cheap cotton and tobacco. Mr Fogel suggests that reparations are, at least in part, “a debt for the European Union”.

Back to Joplin. One crucial point is that a yearbook could have been bought and sold freely for $5. Slavery, of course, is different. Mr Fisher argues that, as a measure of damage, slaves' lost wages are only a bare minimum, since they do not reflect the higher price a person would require freely to choose a life of bondage. Indeed, it would be hard to estimate any market price for enduring the forced separation of families that marked slavery in America.

Arguments about reparations do not end there. Some point to the 350,000 Union troops who died in the war that ended slavery, and ask what compensation their descendants are owed. Others argue that, for all the degradation of slavery, without it slaves' descendants would not now be enjoying much higher prosperity in America than they would experience in their ancestors' homeland. Any reparations should reflect this.

All such calculations may be moot, since such huge figures are unlikely ever to be paid. Moreover, the human costs of war, terrorism and slavery seem to defy any financial calculation. Perhaps on these big questions, economists should leave the field to philosophers and poets—and even politicians.

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China in space

Taikonauts are go

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EPA

Every few years, China's secretive space programme seems about to launch manned craft. This time, it might actually happen

IT IS a little-known fact that the first manned space rocket was Chinese. In the 16th century an inventor called Wan Hu built and tested a rocket-propelled chair in which he planned to ascend to heaven. In a way, he did. On launch, Wan, the chair, 47 rockets and two kites evaporated in flame and smoke, never to be seen again.

It was left to the Russians, followed by the Americans, to make the journey successfully in the early 1960s. But China has been nursing similar ambitions for decades, and despite repeated false alarms, the departure of the first “taikonauts” now looks imminent. China has already sent up three unmanned *Shenzhou* (Sacred Vessel) spacecraft, the most recent having been launched at the end of March. Each of these craft has three seats. At the moment those seats are occupied by dummies, but real people are expected to sit in them within a year or so.

A long march to orbit

China's space programme was unwittingly spurred by the Americans. Nearly 100 scientists of Chinese ancestry were thrown out during the McCarthyite era and sent to the recently formed People's Republic. One of them was Tsien Hsueshen, an aeronautical engineer who was an expert in the new technology of jet propulsion. In 1956 he became head of China's new missile programme.

Dr Tsien's team, working initially with Russian help and then—after the rupture of relations between the Soviet Union and the People's Republic in 1959—on its own, built up a secretive but successful operation. It was based, like the Soviet and American programmes, on knowledge gleaned from Germany's second-world-war V-2 missile project. Before the rupture, the Russians gave China a slightly improved version of the V-2, known as the R-2, and the team took it to pieces to find out how it worked. By the time the Russians had left, Chinese engineers were expert enough to strike out on their own. Within a few months, they had successfully launched their first home-grown R-2, known as *Dong Feng* (East Wind).

The Chinese space programme did not benefit from the luxurious support enjoyed by its bigger rivals. According to Brian Harvey, a historian and author of a book on the subject, not only did it lack such

basics as aluminium-alloy plate and seamless stainless-steel tubes; at one point as many as 70% of the scientists on the team were suffering from malnutrition.

The programme stuttered through the turbulent times of the “great leap forward”, and during the Cultural Revolution Dr Tsien himself was demoted. Nevertheless, by the early 1970s the Chinese had built two intercontinental ballistic missiles, known as *Dong Feng* 4 and *Dong Feng* 5, and modified them (as *Long March* 1) to launch a satellite. A decade later, they could successfully recover large satellites from orbit—an important and difficult step in any manned programme, since it requires the development of effective heat shields, sophisticated tracking systems and automatic controls. After this came scientific, communications and meteorological satellites, followed by the commercialisation of the satellite-launching industry. But no space power ever seems able to believe it has come of age until it has put a person into orbit. And that now seems to be China's intention.

Hastening slowly

In truth, it has probably been the intention all along. Unlike the first efforts of other spacefaring countries, China's first satellite was large enough for a man. Since then, speculation about when the first manned flight will be made has waxed and waned, but never withered completely.

In 1996, the government announced that two taikonauts would fly before October 1999—in time to mark the 50th anniversary of the Chinese revolution. In fact, the country managed only to launch and recover a single, unmanned spacecraft, *Shenzhou* 1, by that date. According to Phillip Clark, who works at the Molynia Space Consultancy in Britain, the most likely reason for this delay was that China had trouble launching enough unmanned proving missions to be sure that meeting the 1999 deadline would not result in disaster. The programme's scientists are now methodically running through the test flights needed to demonstrate that it is safe to launch a human.

From what little is known, it seems these tests are proceeding well. There are rumours that *Shenzhou* 2 broke one of its parachute attachments and had a bumpy landing, but *Shenzhou* 3 seems to have worked perfectly. Mr Clark reckons that, unless there is a major accident, the first crew should be launched this year or next.

Shenzhou 4, due to go up later this year, will definitely be another unmanned mission—although Mr Clark speculates that it may go a little further than its predecessors by rendezvousing with a capsule left in orbit by *Shenzhou* 3. If that goes well, a crew may be put on *Shenzhou* 5, which is due to be sent up later this year, rather than waiting until *Shenzhou* 6—a mission that is pencilled in for 2003.

Such a manned *Shenzhou* mission would—in the words that Alan Shepard, America's first astronaut, used to describe his relationship with his own vehicle—just be spam in the can: a proof that the Chinese can put people into orbit and bring them back safely. That orbiting capsule, and the proposed rendezvous, however, hint at ambitions to come.

Link two or three such modules up and you would have something that a generous observer might concede was a space station. Such a station might be a stepping-stone to other things. And the most powerful configuration of a proposed family of launch vehicles, *Long March* 5, will be able to put a massive 70 tonnes into space. According to Mr Clark, the only justification for such power would be to support a manned lunar programme.

Talk of space stations, deep-space missions and even a shuttle-like craft might sound far-fetched for what is still a relatively poor country. But Chinese planners are frequently supposed (at least by many westerners) to have more distant horizons than others. Perhaps the next footsteps on the moon will be Chinese.

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Astronomy

Comet comment

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AP

Comet Ikeya-Zhang is enlivening the skies

READERS in the northern hemisphere, particularly those living in the countryside, might care to glance towards the constellation Cassiopeia over the next few weeks. Thereabouts, on clear nights, they will see a comet known as Ikeya-Zhang, after its co-discoverers, Kaoru Ikeya, of Japan, and Zhang Daqing, of China. This comet, which has sprouted a satisfactorily hairy tail (the word “comet” is derived from the ancient Greek for “hair”) made its closest approach to the sun on March 18th, and will be closest to the earth (a mere 60m km away) on April 30th.

This is not, it seems, comet Ikeya-Zhang's first visit to the sun. Diligent work by archivists suggests that it made a previous appearance in 1661. That would give it an orbital period of 341 years—the longest yet measured and far longer than, for example, comet Halley, which goes around the sun in a sprightly 76 years. Those periods, though, are measurable only because they are short enough for astronomers to have seen the comets in question more than once. Most comets have orbits far longer than this. They arrive unannounced, then disappear for hundreds of thousands of years. As far as humanity is concerned, they are one-shot wonders.

A comet's natural habitat is the Oort cloud, a reservoir of icy bodies left over from the solar system's formation 4.5 billion years ago, which is believed to stretch out for more than a light year from the sun. Only when a comet arriving from the Oort cloud has its orbit tweaked by a close encounter with a planet does it settle into a more regular existence. Either that or, if the tweaking is in the wrong direction, it gets ejected from the solar system altogether.

For the non-astronomically minded, Cassiopeia is a “W”-shaped formation of stars on the opposite side of the Pole Star from the Plough (or Big Dipper, for readers in North America). Field glasses will help, but the comet should remain visible to the naked eye until the middle of May, at least.

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Battlefield repairs

Mobile warfare

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A better way to keep the tanks rolling

FOR want of a nail, so the adage goes, the kingdom was lost. In modern warfare, victory might depend more on keeping a wheel or a tank track in place, rather than a horse-shoe, but the same principle applies: small cock-ups can have serious consequences, and repairs must be carried out as quickly as possible.

In the past, armies overcame their equipment problems by getting blacksmiths to knock up replacement bits of kit. Although today's weaponry requires a wider range of parts than did knights of old, that is essentially the solution that the American army's National Automotive Centre proposes to keep the tanks and guns rolling. Its prototype mobile parts hospital (MPH) is designed to manufacture parts on demand. For many of these bits and pieces the MPH will use tried and trusted cutting and grinding tools. But more sophisticated components will be put together using two modern techniques: stereolithography and laser engineered net shaping (LENS).

Stereolithography makes it possible to create a solid object from a digital blueprint in a matter of minutes. The technique uses a liquid polymer that solidifies when it is exposed to light of a particular frequency. A platform in a bath of this liquid forms the “anvil” on which a new part is forged; the “hammer” is a laser beam of the appropriate frequency. The laser traces out a pattern corresponding to a thin section through the part that is being created. The platform then drops by a fraction of a millimetre and the process is repeated, building up the component layer by layer. LENS uses a similar laser-based technique, but the layers are built up by sintering powdered materials such as metals on to the developing component.

These techniques are already in use for making prototypes when components are designed, but because they are slow “batch” processes they are not much used in actual manufacturing. They are, however, fast enough to make one-off replacements for broken parts. Paul Skalmy, associate director of the army's National Automotive Centre, which is overseeing development of the MPH, reckons that any component could be replicated and delivered within four hours of a request being made.

Together, stereolithography and LENS should eventually be able to work with a range of 18 different metals, rubbers and other materials, including Duraform PA, a compound already approved by America's Food and Drug Administration for use inside the human body. That would allow the MPH to service front-line hospital units should they run short of some surgical supplies.

This has a pleasing circularity to it. Todd Richman, the MPH's deputy programme manager, says that the whole project was inspired by the mobile army surgical hospitals, or MASH, units made famous in Robert Altman's film of the same name. The mobile hospitals saved countless lives by offering fast access to treatment. They also allowed more soldiers to stay in the battle, since minor wounds could be treated quickly. That, says Mr Richman, is the goal of the MPH as well.

MASH units, complete with operating rooms, could be picked up and moved at a moment's notice, so as to keep them close to the front line. The challenge is to make the MPH genuinely mobile as well. So, three years ago, the army approached Focus:Hope, a training and technology centre in Detroit, to see if it could put a machine-shop on wheels. The organisation built a demonstration unit that could fit inside a trailer. It could therefore be towed anywhere that a lorry could be driven. The next step is to fit everything into a container that is small enough to be carried by a military cargo plane.

Two prototype MPHs should be flying by the summer. There will then be several years of testing, but if all goes according to plan, the army will have a fleet of them ready for battle by 2007.

They may have other uses, too. America's space agency, NASA, is taking a look at a version of the idea for the International Space Station. Replacing parts while in orbit is an even harder challenge than doing so on the battlefield. For all sorts of reasons, not least cost, NASA is reluctant to build up a large warehouse in space. LENS and stereolithographic systems would let the agency store small stocks of raw materials and then fabricate parts, as needed, while in orbit.

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Ancient geography

A great leap backwards

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Geologists have found evidence for the existence of a new supercontinent

MANY organisations use a map of the world as their logo. So does the journal *Gondwana Research*—but its logo consists of a bunch of unfamiliar blobs snugly cuddled against each other. This image represents the earth as it is thought to have looked 200m years ago, when all the continents were clustered together in a "supercontinent" known as Pangaea. Gondwanaland was the name given to the southern half of this landmass, the part that includes modern-day Africa, Australia, South America, Antarctica and India. In the latest issue of the journal, a pair of geologists present their idea of what the planet might have looked like long before Pangaea and Gondwanaland had formed.

According to John Rogers, who works at the University of North Carolina in Chapel Hill, and Santosh, an Indian geologist at Kochi University in Japan, geological evidence suggests that, a billion and a half years earlier, another supercontinent existed. They have dubbed this continent "Columbia", because some of the best evidence for its existence comes from the Columbia river region of the north-western United States.

Joint procedures

Gathering evidence of events in the remote past is no easy task. In 1912, when Alfred Wegener, a German meteorologist, first proposed that the earth's continents were moving around, the notion was ridiculed. It took 50 years to gather enough data to prove that he was right.

Wegener's idea was prompted by the way the continents seem to fit together like pieces of a vast puzzle: most notably how North and South America fit snugly against Europe and Africa. He also pointed to evidence from the fossil record, which showed that similar animal and plant life had once populated both Africa and South America, and suggested that continental drift could explain how mountains form by collisions such as the one between India and Asia that threw up the Himalayas.

Dr Rogers and Dr Santosh could not marshal the fossil record to support their theory: almost no fossils exist from that era of the earth's history and the distribution of those that do neither corroborates nor contradicts claims about Columbia. Instead, the researchers rely on evidence of geological upheaval to make their case. For example, many places around the planet show evidence of mountain-building activity 1.8 billion years ago. Evidence from these zones suggests that the east coasts of India and southern Australia were compressed against western North America.

The rest of the map of Columbia is equally hard to imagine. According to Dr Rogers and Dr Santosh, western Brazil and eastern North America jointly formed a long continental margin where mountain-building occurred. The eastern coast of South America and the western coast of Africa were also joined, just as they are thought to have been in Gondwanaland.

To bolster their case, the two researchers had to find evidence not only of Columbia's formation, but also of its disintegration. The proof of this came from matching patterns of two pairs of geological rifts in the western United States and India. In India, the rifts are known as the Mahanadi and the Godavari; in North America, they are called the Belt and the Uinta. In both countries, these rifts are about 500km apart. More tellingly, radioactive-isotope dating suggests that they are the same age. Judging from this evidence, the rifts formed about 1.5 billion years ago.

Dr Rogers and Dr Santosh reckon that Columbia began to break up around then. About 500m years later, its pieces reassembled to form yet another supercontinent, called Rodinia. Geologists believe that Rodinia

(whose existence is generally accepted) disintegrated about 750m years ago and then reformed into Pangaea after a period of fragmentation that, once again, lasted for roughly 500m years.

This pattern has set Dr Rogers to wondering whether some larger force was at work. Columbia, Rodinia and Pangaea all have quite similar configurations. The period of time that separates one from the next is about the same. Three makes a trend. It cannot, reckons Dr Rogers, be a coincidence that a single supercontinent with a Pangaea-like configuration emerges time and time again. Continental drift could be a periodic process, perhaps driven by convection in the earth's mantle.

Dr Rogers thinks that Rodinia and Pangaea resulted from the aggregation of a few large masses that continually shuffle around. These masses form identifiable blocks within all three proposed supercontinents. If the past pattern holds, Dr Rogers predicts that a new supercontinent will be formed in about 500m years' time. Of course, as he says, even if he is wrong, nobody is likely to be around to know.

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20th-century writers

The riddle of Turin

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Magnum

He worked in the room where he was born and led an uneventful life, even for a writer—if you ignore the concentration camp

PRIMO LEVI (1919-87) was an industrial chemist, a writer and an Auschwitz survivor. His first book, “If This Is a Man”, which came out in the United States as “Survival in Auschwitz”, and his last, “The Drowned and the Saved”, are among the best books of witness. Aside from the year in the camps—his first experience of foreign travel—another adventurous year returning to Italy by way of Russia (described in his book “The Truce”) and a year he was forced by Italy's fascist government to find work in Milan, he spent his entire life in his birthplace, Turin; his study was the room he was born in. He had one employer for 30 years, one wife, two children. It is—always excepting Auschwitz—one of the calmest, least rackety lives of a 20th-century writer. It gave the appearance of being completely, almost bizarrely, well-adjusted: Levi visited post-war German factories for his work, took courses at the Turin Goethe Institute and translated Franz Kafka and Gottfried Benn. And then, on a Saturday morning, his wife out of the house shopping, his infirm mother with her nurse, the (apparently harmless) post just delivered, he threw himself over the third floor banister into the stairwell and was instantly dead.

It was a great shock to the sage and saintly reputation that was accruing to Levi internationally, which he did not especially want and which probably put him under more strain. If not for the suicide, it is unlikely that two immense biographies would have come out together in a single week. Both books originate in Britain, the British being the biographer-ants of literary entomology. Both come to the same conclusion: that Levi died not from some late recrudescence of Auschwitz in the form of survivor guilt, but because of his own chronic, if not lifelong, depression. Apart from that, their exhaustiveness and their length (Carole Angier's is around 900 pages, Ian Thomson's a trim 600), the two accounts could hardly be more different. One is modest, useful, well-written, a credit to its subject; the other is not.

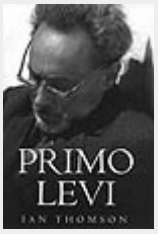
Ms Angier's book is not so much a biography as a traumatography—the story of a wound. She seems unable to touch something without making it a little confusing and quite a bit worse: Levi's ancestry, parents, home, childhood, friends, studies. In her narrative, she produces endless—and endlessly

The Double Bond: The Life of Primo Levi
By Carole Angier

Farrar, Straus & Giroux; 928 pages; $40.
Viking; £25

Buy it at
Amazon.com
Amazon.co.uk

Primo Levi
By Ian Thomson



Hutchinson; 624 pages; £25

Buy it at
Amazon.co.uk

inferior—retellings, first of Levi's beautiful and tangential little autobiography, “The Periodic Table”, and then of the Auschwitz books. Her own style is sticky with vulgar intensifiers: “so”, “still”, “much”, “very”, “only”, “extraordinary”, “brilliant”, “supremely”. Like a cold-caller she refers to Levi, whom she never knew, as Primo. Her title is shamelessly taken from an unpublished manuscript of his on which he was working. This is biography as process, as quest. Great tracts of it are, in a phrase of the moment, touchy-feely. The biographer here is a weathervane inserted into the subject's soul, self-importantly spinning and rattling.

Mr Thomson, by contrast, endears himself to the reader by admitting right away (and then not again): “It is fantastically difficult to fashion a narrative out of the inchoate facts of someone's life.” A little later, he says, “It seemed to me dishonest, as well as dangerous, to recast Levi's printed words in a biography”—which, though he wouldn't have known it, is what Ms Angier does. He keeps some distance, at times a critical distance, from what he is writing about. There is “something rather priggish” about the young Levi, he was “in all likelihood not manifestly ‘exceptional'” at school; his verses are “syrupy”; the science fiction stories, “bagatelles really—are able but undistinguished.” After Ms Angier, for whom everything seems liable to be equally and simultaneously brilliant and terrible, this is a great relief.

Both biographers have certain coups they alone were able to pull off; Ms Angier got a sight of the manuscript of Levi's “Double Bond”, a sort of follow-up to “The Periodic Table”, and spoke to anonymous women friends of his late years. Mr Thomson met and interviewed Levi himself shortly before he died—attractively, it is not something he makes great play with; he was 24 and exceedingly nervous, he says—and also spoke at length to Levi's sister. He seems easier with Italy, and with Italian (Ms Angier herself confesses to not recognising a famous phrase from the opening of Dante's “Inferno”). His book is thickened and lit by more historical and cultural information, and by closer attention to what you might call healthy externals. It is only from Mr Thomson that you would know that Levi climbed Mont Blanc; that he visited Israel in 1968 and Sicily in 1980; that he drove, and what he drove; that he smoked, and what he smoked; that he liked his food and drink (his favourite dish was polenta and frogs). It is Mr Thomson who squashes the story that Levi was taught by Cesare Pavese, a great Italian novelist and poet; he who talks about the successful suit Levi brought against I.G. Farben, makers of Zyklon B, the gas used in the camps; he who gives us a sense of the man Levi might be to meet: sweet, witty, lucid, modest, small.

Levi was a great writer and a gifted chemist, but the thing he was best at—even as it most reduced him, and probably because it most reduced him—was Auschwitz. Unfortunately for him—in spite of loose talk from friends and biographers about his having imprisoned himself on the Corso Re Umberto, or of his home life with his wife and his old mother as a kind of laager—it was of limited application elsewhere in his life. An investigating magistrate looking into the many near-accidents at his chemical factory described him as “a dangerously unprofessional man”; a friend described him as “a chemist on loan to literature”; and Levi himself praised a group of stories he was sent as “best of all, clearly not the work of a so-called professional writer.” How such a man—slight, childlike, needy, private, shy away from his family and friends—ended up becoming at times almost a professional survivor and one of the earliest literary celebrities in translation is a fascinating and improbable story. He wanted to be a writer not a survivor, but it was being a writer that he could not survive.

The Double Bond: The Life of Primo Levi.
By Carole Angier.
Farrar, Straus & Giroux; 928 pages; $40.
Viking; £25

Primo Levi.
By Ian Thomson.
Hutchinson; 624 pages; £25

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About sponsorship

The conquest of Berlin

Burdens of victory

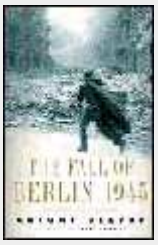
Apr 11th 2002
From The Economist print edition

The Nazis badly underestimated Russian soldiery, as Berliners learned to their cost

ANTONY BEEVOR hauls his book on Berlin in 1945 along an already deep furrow. Yet although there are countless accounts of the end of the second world war, he makes an impressive contribution by offering a ground-level description of the fighting in the vicinity of Berlin and the sufferings of the civilian population. He has interviewed many witnesses and, with the aid of translators, examined some Soviet archives.

The result is a powerful evocation of the last campaign before the German surrender to Marshal Zhukov on May 8th 1945. The author shows us the ragged Russian soldiers opening cans of condensed milk with their bayonets in Berlin's smoking outskirts. He describes a group of Hitler Youth conscripts, some of them too young to wear long trousers. In the closing chapters there are details which rarely figure in standard accounts. Important to both sides, German and Soviet alike, were the blocking detachments. These were armed units charged with preventing their own forces from deserting. Mr Beevor also looks at the activity of the intelligence agencies. Everywhere, the Gestapo and the NKVD, its Soviet equivalent, were collecting information on civilian morale in a rapidly changing situation and passing it up to their masters in Berlin or Moscow.

The Fall of Berlin: 1945
By Antony Beevor



Penguin Putnam; 475 pages; $29.95. Viking; £25

Buy it at
Amazon.com
Amazon.co.uk

Hitler and Stalin are leading figures in the drama. The generals, too, appear. Zhukov, the Soviet commander who won fame by taking Berlin, is often given centre-stage; and, for once, Zhukov is shown to have made many mistakes. Zhukov in today's Russia has the status of a national saint. He is practically the only prominent personality from the Soviet decades retaining official favour and popular affection. But Zhukov, brave and cunning, was also a bully of his own forces and Mr Beevor vividly presents his negative side.

Yet the focus is steadier with lesser figures. The account outlines how badly the Soviet army, ill-fed and ill-clothed, behaved in the first weeks of its occupation. Looting was permitted; even Zhukov bagged suitcases of plunder. There was also an epidemic of rape. German women and girls hid in attics rather than show their faces on the streets. Though this is not the first book to mention the topic, Mr Beevor's descriptions are especially moving.

Unfortunately, other aspects of the behaviour and attitudes of the average Russian soldier are weakly depicted. For this it would have been necessary to look at the records on the wartime national mood. Recently published evidence shows that Russians aspired to the construction of a peaceful international order in Europe and to the inception of a more humane political and social system in their own country. Otherwise the military struggle was not thought worthwhile. Stalin knew all about this and increased repression in the Soviet Union in order to shore up his despotism after the war.

Nor are the Soviet army commanders given their due. The Wehrmacht had learned soon after invading Russia in 1941 that Nazi propaganda had fatally underestimated the skill and intelligence of Soviet generals. Those ruthless butchers Zhukov and Konev were brilliant managers of a mighty military machine. Such was their confidence that Stalin ran scared of them as soon as victory ceremonies were over. Antony Beevor ends with the demotion of Zhukov and the dissemination of the official legend of Stalin as the greatest military strategist of history. Packed with stories about soldiers and civilians at the extremes of human experience, “The Fall of Berlin” excites and informs.

The Fall of Berlin: 1945.
By Antony Beevor.
Penguin Putnam; 475 pages; $29.95. Viking; £25

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About sponsorship

French elections

Either-or, neither-nor

Apr 11th 2002
From The Economist print edition

Four books on France's choice

Get article background

ELECTIONS produce deadlines for authors as well as politicians—hence the volumes piling up ahead of France's presidential election on April 21st and May 5th, not to forget its parliamentary election on June 9th and 16th. Will they enlighten French readers, and encourage an apathetic electorate to vote?

Enlightenment we can probably count on, but not of a kind that will endear voters to Jacques Chirac or Lionel Jospin, the two leading candidates for president. Raphaëlle Bacqué's very readable book portrays President Chirac, heir to the nation's Gaullist instincts, as a curiously empty man: what motivates him is not a thought-through ideology but the pursuit of power (witness his frequent assertion that a programme is simply a way to get elected). By contrast, Christine Mital and Erik Izraelewicz, in their equally readable portrayal of Mr Jospin, depict France's Socialist prime minister as a man of ideology and ideas, some of which he keeps masked. In short, the titles are well chosen: Mr Chirac is indeed a demon for power, Mr Jospin a Monsieur Ni-Ni—a neither-nor man.

Mr Chirac has spent four decades in politics, scheming against his colleagues (Valéry Giscard d'Estaing has never forgiven him for breaking ranks in 1981 and denying him a second term in the Elysée) while shaking voters' hands by what must now be the million. The one constant, whatever the electoral defeats or—as in recent months—the financial and political scandals, has been his mix of charm, warmth and physical energy. As to his beliefs, Mrs Bacqué reminds us that he has been "a liberal, a socialist, a federalist, a free-marketeer, a man for the workers, a Reaganite, against the European single currency and then a pro-Europe militant".

And the austere neither-nor man? The Jospin vocabulary is self-serving sophistry: economic policy is "neither globalisation nor statism" (a phrase that rhymes well in French); the policy of reform is "neither retreat nor denial, neither pause nor acceleration"; budgetary policy is "neither rigour nor looseness"; policy on state-owned companies is "neither privatisations nor the status quo". Indeed, for almost every difficult situation the authors find a Jospin "neither-nor".

One reason for the studied ambiguity is obvious: Mr Jospin has for five years led a left-wing coalition applying conservative policies which would have come apart had frankness prevailed. His Communist partners would have rejected privatisation under that name—but they could accept a so-called opening up of capital, the formula under which the Jospin government has sold off more government assets than its right-wing predecessors.

But the authors hint at a deeper explanation, a struggle within the man himself to reconcile an ideologue's past—last year Mr Jospin admitted to having been a secret Trotskyite even as he rose to be first secretary of the Socialist Party—with a pragmatist's present. The result is a politician who knows the power of words, "a man willing to renounce neither convictions nor power."

Chirac ou le démon du pouvoir
By Raphaëlle Bacqué

Albin Michel; 300 pages; euro18.90

Buy it at Amazon.fr

Monsieur Ni-Ni: L'économie selon Jospin
By Christine Mital and Erik Izraelewicz

Robert Laffont; 247 pages; euro19.70

Buy it at Amazon.fr

Le temps de répondre
By Lionel Jospin (interviewed by Alain Duhamel)

Mr Jospin sees no contradiction. His extended interview with Alain Duhamel traces a career in which his fundamental beliefs in equality and solidarity (as a young man he spent his spare time helping difficult youngsters in poor parts of Paris) have never wavered. France, he says, is “a rich country with too many poor, a modern country with archaic traits”—and change will require a form of socialism which is not that of Tony Blair or Gerhard Schröder but is nonetheless modern.

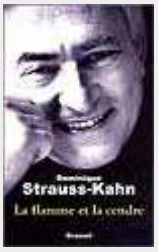
Cue for Dominique Strauss-Kahn, Mr Jospin's friend and first finance minister until allegations of corruption led to his resignation in November 1999. There followed two years in the wilderness before his name was cleared—but two years which he used to produce that rarity from a politician, a work of depth. (The title, “La flamme et la cendre”, alludes to a speech made in 1910 by Jean Jaurès, a father of French socialism.) In it you will find intellectual foundations for Mr Jospin's book and for his electoral programme.

Whether a President Jospin would build on these foundations is another matter. In his heart does he really agree with Mr Strauss-Kahn's notion that socialism must now stress not redistribution but production? Or that socialism must do more for the middle classes? Perhaps not. But intellectually he would surely recognise the force of Mr Strauss-Kahn's argument and the sparkle of his ideas. These include dropping the post of prime minister, sunset clauses on France's ever-mounting quantity of legislation and the establishment of an economic government for the European Union.

Stock; 284 pages; euro15

Buy it at
Amazon.fr

La flamme et la cendre
By Dominique Strauss-Kahn



Grasset; 393 pages; euro20

Buy it at
Amazon.fr

Meanwhile, the demon Mr Chirac will be doing his all to ensure that a Jospin presidency, with or without Mr Strauss-Kahn's ideas, never happens. Most books on Mr Chirac, from the spiteful account by his chauffeur, Jean-Claude Laumond, to the massive biography by Philippe Madelin, are less than flattering, and Mrs Bacqué's is no exception. But all agree that he is a campaigner to be reckoned with. The ambivalent, enigmatic Mr Jospin has a fight on his hands; so, too does the ambivalent, enigmatic Mr Chirac.

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By Dominique Strauss-Kahn.
Grasset; 393 pages; euro20

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About sponsorship

Poets' lives

Inverse mappings

Apr 11th 2002
From The Economist print edition

WHEN Ian Hamilton was invited to write an updated version of Johnson's "Lives of the Poets" that would cover the 20th century, he thought it "a nice idea, if somewhat gimmicky". But he took on the project all the same. As he warmed to the task, he found that his problem was not, as he had feared, finding enough worthwhile writers to fill out a book, but keeping the numbers down. Hamilton died last year, shortly after completing this book, having enjoyed a distinguished career as a poet, literary critic and editor. Like his great predecessor, he cuts an authoritative figure.

Against Oblivion: Some Lives of the Twentieth-Century Poets
By Ian Hamilton

Viking; 320 pages; £20

Buy it at Amazon.co.uk

"Against Oblivion" comprises short essays on 45 poets, British and American, from Rudyard Kipling to Sylvia Plath. As well as quoting liberally in his own text, Hamilton reproduces in their entirety two or three of what he takes to be the best poems by each poet.

Four omissions are mentioned at the outset. There are no chapters on Hardy, Yeats, Eliot or Auden, says Hamilton, because none of these poets is in danger of oblivion. "There can be no disputing either their mastery or their supremacy, as the 20th century's most gifted poetic presences, and the most likely to endure." The long shadow those four giants cast over all who have followed them is one of the book's principal themes.

Beyond that, Hamilton makes his criteria for selection clear. The poets who made the cut did so "either on the grounds of reputation, or personal taste or because their careers had 'literary-historical' significance." As well as the obvious shoo-ins—Pound, Lowell, Larkin, Hughes—there are chapters on several less familiar figures. Names such as Charlotte Mew and Henry Reed are unlikely to ring many bells, yet Hamilton leaves you eager to read more of their work.

His tone is plain-talking, common-sensical, fiercely undeceived. His judgments are by no means always favourable, or even fair—though he is never any the less entertaining for that. Hamilton can be high-handed and waspish, but he is seldom merely flippant. On the distribution of talent, for instance, it is hard to disagree when he notes coolly: "At certain periods in history it has been quite enough to have been in the right place at the right time—and to have looked the part."

Much of the poetry to which Hamilton responds most enthusiastically has a strongly conversational quality. He admires D.H. Lawrence for having cultivated in his poetry "a talking voice that sounds like talk", and applauds Philip Larkin's "gift for accommodating real speech into metre without even the faintest hint of toil and strain."

Though the short format prevents Hamilton from going into much detail, he is usually able to give a vivid sense of what is most distinctive about a poet. The tonal range of Wallace Stevens's first collection "Harmonium" runs, he observes with wicked precision, from "the chuckling-oblique to the mellifluous-sublime". And Hamilton can skewer a lifetime's pretensions in a single well-turned phrase, as when he suggests that, for the hectoring and relentlessly self-aggrandising Theodore Roethke, "imitation was also a form of battery".

"Against Oblivion" serves as both a splendid overview and a convenient sampler. Hamilton's muscular, persuasive style, his critical perceptiveness and his endlessly colourful subject matter make for gripping reading. It is also a book whose cumulative effect is to remind you of the tremendous richness and diversity of 20th-century poetry in English.

Against Oblivion: Some Lives of the Twentieth-Century Poets.
By Ian Hamilton.
Viking; 320 pages; £20

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About sponsorship

Oprah's book club

The final chapter

Apr 11th 2002
From The Economist print edition

Is plugging books on television becoming a thing of the past?

Reuters

"HOLY shit" was how one New York publishing executive greeted the news that Oprah Winfrey would no longer devote regular broadcasts to her book club. An understandable response, when you think that the TV lit-crit show founded in 1996 was widely considered one of the biggest boons to reading and book sales in America since the creation of the Book-of-the-Month Club more than 75 years ago.

Despite misgivings in the world of books, viewers flocked to buy those Ms Winfrey recommended. Of her 46 picks to date, 16 hit the top of the *New York Times* bestseller list within weeks of her benediction. Many of the most popular had female heroines and explored themes of race, dysfunctional families or triumph over adversity—sometimes in a weighty combination of all three. Most were new books, but some were old faves of Ms Winfrey's such as Maya Angelou and Toni Morrison. The least popular were a book by a fellow black television star, Bill Cosby, and, outside metropolitan New York, "A Fine Balance", a fat spicy novel set in an unnamed Indian city by a stylish Indo-Canadian novelist, Rohinton Mistry.

Although some writers—notably Jonathan Franzen, in a well-publicised spat last October—grumbled about the association with low-brow TV, most kept quiet as they hurried to the bank. As did their publishers, who will be hard-pressed to find as efficient a marketing tool as the queen of the chat-show sofa. She plucked mid-list scribes from oblivion and added sales muscle to proven bestseller authors. For example, three Oprah picks alone meant a gain of $60m in sales for Penguin according to *Publishers Weekly*.

Ms Winfrey explains that she is dropping the book club because it has become too difficult each month to find books she feels "absolutely compelled to share". Few people in publishing or television think that this can be the whole story. Behind her heartfelt complaint is hard-nosed reflection about how to keep a chat show, and its host, tirelessly fresh and popular.

The Oprah Winfrey bounce

Ranking	Book title	Author	Date of recommendation	Trade paperback sales to date, m*
1	The Pilot's Wife	Anita Shreve	Mar 1999	2.80
2	The Poisonwood Bible	Barbara Kingsolver	Jun 2000	2.30
3	House of Sand and Fog	Andre Dubus III	Nov 2000	2.20
4	Where the Heart Is	Billie Letts	Dec 1998	2.00
5	Here on Earth	Alice Hoffman	Mar 1998	1.95
6	We Were the Mulvaneys	Joyce Carol Oates	Jan 2001	1.60
7	The Reader	Bernhard Schlink	Feb 1999	1.50
8	Midwives	Chris Bohjalian	Oct 1998	1.35
9	While I Was Gone	Sue Miller	May 2000	1.30
10	She's Come Undone	Wally Lamb	Jan 1997	1.20

Source: *Publishers Weekly* *Compiled from publishers' own figures for sales to booksellers before returns

The threat to book-talk on television is not just American. Neither of Europe's two most celebrated TV

book shows have survived the departure of their hosts, Bernard Pivot in France and Marcel Reich-Ranicki in Germany. Both these customarily high-brow shows were axed in the past 12 months, having slipped ever further from prime scheduling slots. The sad fact is that television may sell books but books do not seem to sell television. Despite the news in the United States this week that NBC's Today Show will launch a book club of its own in June, the watcher-trend does not look literary. Episodes of Oprah's show featuring books routinely won fewer viewers than non-book episodes. Audience numbers, not extra book sales, are what matter to TV programmers.

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About sponsorship

Princely collecting

Bagging canvases

Apr 11th 2002 | MADRID
From The Economist print edition

High art has always involved high politics—and high prices

Rubens plumped for peace

IMAGINE hordes of angry royal servants appealing to Oliver Cromwell's new parliament for their overdue wages. Instead of money, the parliamentarians give them Correggio's saucy painting of a nude Venus, telling them to flog it for what they can get. A Monty Python sketch on British history? No: the making of the English art market by the disposal of Charles I's vast collection after his beheading in 1649.

The decision to sell allowed Cromwell both to pay off legions of royal servants and to expunge a symbol of royal extravagance. More than 1,500 works were sent to Somerset House for viewing. Unfortunately, there were few takers. Most aristocrats had sided with the king and were in no position to buy art, and the French had broken off relations with the regicide government. In the end the only buyer, beyond artists and wealthy parliamentarian speculators, was the Spanish ambassador, Alonso de Cardenas, who snapped up many of the Renaissance bargains to send back to the welcoming arms of Philip IV in Spain. The remaining 684 works were divided between 14 syndicates of servants (called dividends) who set up makeshift galleries to sell them.

That naughty Correggio was allotted to the royal glazier, Thomas Bagley, who sold it, on behalf of his dividend, to Cardenas for £400. When the French restored relations in 1651 and Cardinal Mazarin fought to acquire the remaining treasures, the price had soared to £4,000. As more great English collections went on the block in the 1650s—notably those of the beheaded Dukes of Buckingham and Hamilton, as well as that of the exiled Earl of Arundel—the French and Spanish ambassadors, together with David Teniers, an artist acting for a Spanish patron, outbid and outwitted each other for the best works. Most now hang in the Prado.

“Sale of the Century” contains more than 60 works that changed hands by artists such as Titian, Mantegna and Raphael, and, uniquely for a museum show, it notes their prices. Of equal interest is how the curators, Jonathan Brown of New York University and Sir John Elliott of Oxford, interweave history and art, setting up the exhibition as a narrative that unfolds room by room. They show how, early in the 17th century, art collecting became a princely trophy sport, as aristocrats—especially English ones—competed for the best works up and down the courts of Europe.

The show opens with a group portrait of the Spanish and English delegates to the peace conference at Somerset House in 1604, which ended 17 years of war between Spain and England and renewed diplomatic and cultural exchange. We see the peace treaties, as well as portraits of the major players, James I and Philip III, then the most powerful men in Europe.

A marriage not made in Madrid

King James saw himself as a European peacemaker and dreamed of marrying off a son, first Henry, then Charles, to a Spanish royal princess. But negotiations, which spanned two Spanish reigns, stumbled over religious differences. To break the deadlock, the art-loving Prince of Wales set off for Madrid in 1623 with a coterie of connoisseurs. He was thrilled at the chance to see his would-be in-laws' collection. It was known to be the greatest in Europe and the Escorial was then Europe's most magnificent palace. Hung with devotional works collected by generations of Spanish kings, it was the closest the world had to a museum of religious art.

The jewels of the royal collection were the Titians amassed in the previous century by Philip II, a patron and friend of the legendary Venetian. That king might have gone down in historical legend as the dark prince of the Inquisition, husband of bloody Mary and expediter of the Armada, but he had a soft spot—and good eye—for art. When Charles saw his masterpieces, it was a revelation. As he swanned around Madrid, he was not shy about asking for certain paintings. The Spanish court felt it bad manners to refuse. In this way, Charles acquired works by Veronese and Raphael, and even a portrait by Titian. But he also had the temerity to ask for the best: Titian's “Poesie”, a famous series of erotic mythologies, which were reluctantly crated up for him. The moment the marriage negotiations broke down, the Spanish king gave orders for the paintings to be unpacked and returned without delay.

What Charles couldn't beg, he bought from Spanish aristocrats and he returned to England with crateloads of paintings and a new understanding of art and architecture. After he was crowned in 1625, Charles bought the entire Gonzaga collection—a great Renaissance haul belonging to the impoverished dukes of Mantua. Even as he sat in prison after the civil war, he poured over a book of architectural plans of the Escorial, still dreaming of designing Whitehall along the same monumental lines. The current art-loving Prince of Wales opened this exhibition and lingered long over the paintings that might have been his, particularly admiring the works by Dürer.

This exhibition is remarkable in showing art as both sublime and marketable. We see masterpieces such as Rubens's “Allegory of War and Peace” or Titian's “Venus and Cupid with an Organist” both as princely prizes and as chattels caught up in the vicissitudes of history. As Mr Brown notes, the overwhelming tendency of art exhibitions is to focus on the artist as the heroic creator. But artists are also social and financial beings, and thanks to the lucid and engaging scholarship of Messrs Brown and Elliott—also evident in an exceptional catalogue—we can see how they operated. Lest anyone consider such intrigues over art spoils as distant history, we need cast our minds back only to Napoleon, who campaigned across Europe with a team of art historians attached to his army, and, more recently, to the restitution claims over Nazi war loot. By contrast, the sale of the century was a tea party.

“Sale of the Century”, Prado, Madrid, until June 2nd. Catalogue: Yale University Press; 315 pages; £45. (To be published in the United States in autumn 2002)

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About sponsorship

John Pierce

Apr 11th 2002
From The Economist print edition

John Robinson Pierce, satellite communications pioneer, died on April 2nd, aged 92

ONLY the technically minded are likely to have read John Pierce's "Theory and Design of Electron Beams", but many thousands, perhaps millions, will have devoured his stories in magazines such as *Astounding Science Fiction*, written under the pseudonym J.J. Coupling. Mr Pierce did not try to keep his fiction writing a secret, but nor did he publicise it. In reference books he lists his leisure interests as "writing, science fiction", with the comma separating the two pursuits. Scientists have enough trouble getting backing for their projects without giving ammunition to their opponents. "Another fantasy idea of yours, eh Mr Pierce?" He could do without that.

John Pierce appreciated that most of the great leaps forward in technology were anticipated by writers and others before the means became available to turn them into reality. Leonardo designed a flying machine; Hero of Alexandria, a Greek, experimented with steam power 2,000 years ago. In 1962 Mr Pierce designed and launched *Telstar 1*, the first communications satellite to be used commercially. But years earlier Arthur C. Clarke, a British science-fiction writer who had trained as an engineer, had proposed such a system of communications. Mr Pierce, he said, had made real what "I and others thought only to write and dream about."

Towards the end of his long life, Mr Pierce noted that science fiction was at last being taken seriously by those who saw it as an aid to making a calculated guess about the problems of the future. An American academic writing on the Internet says that he uses "hard science fiction" to acquaint his students with, for example, what it will be like for humans to make their first expedition to Mars. Fiction could show the creative thought that leads to a solution. Good writers, he says, try not to break scientific laws. What about space epics in movies and television? Steady there. This is academe.

A word for it

John Pierce published his first fiction in 1930 in *Science Wonder Stories*. It helped to pay his expenses while studying at the California Institute of Technology. In the mid-1930s, when he left the institute with a doctorate in electronics, he was taken on by Bell Telephone Laboratories, founded by the inventor of the telephone and in its day the most famous scientific research and development organisation in the world. He was to stay there for 35 years. When Bell workers invented a small electronic switch they were wondering what to call it. Mr Pierce the wordsmith suggested "transistor", and that stuck, to be applied to many now indispensable things from radios to computers. He would often have to explain that he did not invent the transistor; but he did give it its name.

In the second world war Mr Pierce worked on radar, in which signals directed at an object are bounced back to the transmitter. In the 1950s, when the first artificial satellites were being launched, first by the Russians then by the United States, Mr Pierce calculated that 25 of them, suitably placed, could provide almost continuous communication around the world by bouncing signals from continent to continent. In 1960 a metal-coated plastic balloon 100ft across sent up by America's space agency was used by Bell to bounce telephone calls to distant destinations in the United States. Mr Pierce's *Telstar*, launched two years later, carried television pictures between America and Europe as well as phone calls.

Meanwhile, the reputation of J.J. Coup-ling was growing apace. His editors asked what the initials stood for. In physics, the author explained, J.J. Coupling is a process for determining the wave function of an

atom that has a large number of electrons. Well, of course. Now, J.J., what are you up to at the moment? Mr Pierce was up to many things. His technical writing took up a lot of his time. In the course of his career he wrote or contributed to 20 books, and more than 300 papers. He liked to invent things and was granted some 90 patents. He was fond of gliding and of music composed by computer; at Stanford University he was for 12 years a professor of music and never asked for a salary. He won many prizes and received dozens of honorary degrees.

Science fiction? Yes, it remained an interest. But one problem for writers, Mr Pierce found, was the timing of the future. In “2001: A Space Odyssey”, a film made in 1968, his friend Arthur Clarke had assumed that space travel would soon become commonplace. In 2002 that prospect still remains a distant improbability. Mr Pierce may have better luck with his stories about cyborgs, mechanical people, an idea that has intrigued inventors since Carlo Collodi wrote “Pinocchio” in 1881. Mr Pierce's story “Period Piece” was written in 1948 but wisely set well ahead sometime in the 21st century. It concerns a cyborg called Smith who in most respects looks human. But he begins to suspect that he is only “a charming mechanical toy”. Smith discovers he has not been provided with sexual feelings like a real human, and understandably feels rebellious. J.J. Coupling/John Pierce may have done science yet another service by identifying a tricky future problem here. Should cyborgs have sex? It would surely be an almost-human right.

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Overview

Apr 11th 2002
From The Economist print edition

America's unemployment rate climbed to 5.7% in March, from 5.5% in February, despite a gain of 58,000 jobs. Although factories shed labour for the 12th month in a row, the number of job losses is running at only a third of last year's levels.

Industrial output in the **euro area** fell by 3.2% in the year to January. **Germany's** unemployment rate remained at 9.6% in March. The 12-month trade surplus widened to $90.3 billion in February, up from $56.3 billion a year earlier; the current-account surplus also widened to $15.8 billion, from $14.7 billion in January. **Spanish** industrial production fell by 0.2% in the year to February. In the **Netherlands**, consumer prices rose by 3.6% in the year to March; producer prices fell by 2.6% in the year to February.

Britain's industrial production fell by 5.1% in the year to February. Manufacturing output rose by 0.4% in February, its first monthly rise since August, thanks largely to the chemicals and synthetic-fibre industries. Britain's 12-monthly trade deficit widened to $47.2 billion in February, from $46.6 billion in January.

Canadians are going back to work. In March, the unemployment rate dropped from 7.9% to 7.7%, the lowest rate since November.

In **Japan,** broad-money growth quickened to 3.8% in the year to March.

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Output, demand and jobs

Apr 11th 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 5.2	+ 4.1 Q4	+ 3.8	+ 3.9	+ 2.5 Q4	+ 4.8 Q4	6.3 Mar	6.5
Austria	– 0.3	+ 0.9 Q3	+ 1.2	+ 2.6	– 5.9 Jan	– 3.5 Dec	3.9 Feb	3.4
Belgium	– 0.8	+ 0.1 Q4	+ 1.3	+ 2.9	– 7.5 Jan	– 5.0 Jan	10.8 Mar*	10.3
Britain	+ 0.1	+ 1.6 Q4	+ 1.9	+ 2.9	– 5.1 Feb	+ 5.9 Feb	5.1 Jan†	5.2
Canada	+ 2.0	+ 0.9 Q4	+ 2.3	+ 3.5	– 3.5 Jan	+ 5.7 Jan	7.7 Mar*	7.0
Denmark	+ 0.7	+ 0.7 Q4	+ 1.5	+ 2.4	– 1.6 Feb	+ 2.0 Feb	5.1 Feb	5.4
France	– 0.6	+ 0.9 Q4	+ 1.5	+ 2.9	– 1.3 Jan	– 0.4 Feb	9.0 Feb	8.7
Germany	– 1.0	– 0.1 Q4	+ 0.9	+ 2.5	– 4.4 Jan	– 1.8 Jan	9.6 Mar**	9.3
Italy	– 0.8	+ 0.7 Q4	+ 1.3	+ 2.9	– 3.3 Jan	+ 0.2 Jan	9.1 Jan	9.8
Japan	– 4.5	– 1.9 Q4	– 1.0	+ 1.1	–11.3 Feb	– 4.6 Feb	5.3 Feb	4.7
Netherlands	nil	+ 0.4 Q4	+ 1.4	+ 2.7	– 4.0 Feb	– 0.7 Nov	1.9 Feb§	2.3
Spain	+ 0.7	+ 2.3 Q4	+ 2.0	+ 3.2	– 0.2 Feb	na	12.9 Feb	13.2
Sweden	+ 1.4	+ 1.1 Q4	+ 1.7	+ 3.0	– 4.3 Jan	+ 1.7 Jan	4.0 Feb*	4.2
Switzerland	+ 0.1	+ 0.4 Q4	+ 1.0	+ 2.2	– 1.0 Q4	+ 3.8 Jan	2.6 Mar*	1.8
United States	+ 1.7	+ 0.5 Q4	+ 2.5	+ 3.5	– 4.1 Feb	+ 5.9 Feb	5.7 Mar	4.3
Euro area	– 0.8	+ 0.6 Q4	+ 1.3	+ 2.8	– 3.2 Jan	+ 0.7 Jan	8.4 Feb	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 1.8	– 0.9 Q4	na	na	– 7.5 Feb	+ 2.9 Dec	9.4 Feb*	9.8
Greece	na	+ 3.7 Q4	na	na	– 4.0 Dec	+ 6.8 Dec	na	na
Iceland	na	+ 3.1 2001	na	na	+ 2.5 2000	na	2.6 Feb*	1.5
Ireland	na	+ 3.2 Q3	na	na	+10.9 Jan	– 0.6 Jan	4.2 Feb	3.6
Luxembourg	na	+ 5.1 2001	na	na	– 9.2 Dec	+14.9 Oct	2.7 Jan	2.7
New Zealand	+ 2.6	+ 2.9 Q4	na	na	+ 3.5 Q4	+ 7.4 Q4	5.4 Q4	5.6
Norway	+ 1.0	+ 1.8 Q4	na	na	+ 6.2 Feb	+ 3.4 Feb	3.3 Q4	3.1
Portugal	– 1.0	+ 1.3 Q3	na	na	+ 0.5 Feb	+ 1.1 Feb	4.1 Q4*	3.8

*Not seasonally adjusted. †Nov-Jan; claimant count rate 3.1% in Feb. §Dec-Feb. **EU harmonised rate 8.1% in Mar.

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Prices and wages

Apr 11th 2002
From The Economist print edition

% change at annual rate

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 3.1	Q4	+ 5.8	+ 2.5	+ 2.4	– 0.7	Q4	+ 8.4	+ 4.9	Q4	+ 5.4
Austria	+ 1.9	Feb	+ 2.6	+ 1.6	+ 1.7	– 0.3	Mar	+ 2.7	+ 2.5	Feb	+ 2.6
Belgium	+ 2.7	Mar	+ 2.1	+ 1.8	+ 1.7	– 1.6	Jan	+ 5.9	+ 3.1	Q4	+ 1.6
Britain	+ 1.0	Feb	+ 2.7	+ 2.1	+ 2.5	– 0.3	Feb	+ 1.3	+ 2.7	Jan	+ 4.6
Canada	+ 1.5	Feb	+ 2.9	+ 1.3	+ 2.1	– 1.4	Feb	+ 2.6	+ 3.3	Jan	+ 0.9
Denmark	+ 2.6	Mar	+ 2.3	+ 1.9	+ 2.0	nil	Feb	+ 3.4	+ 4.1	Q4	+ 3.8
France	+ 2.0	Feb	+ 1.4	+ 1.4	+ 1.5	– 1.3	Feb	+ 3.5	+ 4.1	Q4	+ 5.0
Germany	+ 1.8	Mar	+ 2.5	+ 1.4	+ 1.4	– 0.5	Feb	+ 3.7	+ 2.3	Jan	+ 2.5
Italy	+ 2.5	Feb	+ 3.0	+ 1.9	+ 1.9	– 1.4	Feb	+ 5.0	+ 2.8	Feb	+ 2.0
Japan	– 1.6	Feb	– 0.3	– 0.8	– 0.5	– 0.1	Mar	+ 1.0	– 0.3	Feb	+ 0.9
Netherlands	+ 3.6	Mar	+ 4.6	+ 2.9	+ 2.3	– 2.6	Feb	+ 6.6	+ 3.6	Feb	+ 4.4
Spain	+ 3.2	Mar	+ 3.9	+ 2.3	+ 2.4	– 0.2	Feb	+ 3.6	+ 3.7	Q4	na
Sweden	+ 2.9	Mar	+ 1.9	+ 2.2	+ 2.0	– 0.4	Feb	+ 2.5	+ 3.2	Dec	+ 2.7
Switzerland	+ 0.5	Mar	+ 0.9	+ 0.6	+ 1.1	– 1.5	Feb	+ 0.8	+ 1.3	2000	+ 0.3
United States	+ 1.1	Feb	+ 3.5	+ 1.4	+ 2.2	– 2.6	Feb	+ 4.0	+ 3.5	Mar	+ 4.3
Euro area	+ 2.5	Mar	+ 2.6	+ 1.7	+ 1.7	– 1.1	Feb	+ 4.6	+ 3.0	Q4	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Feb	+ 2.7	na	na	– 1.4	Feb	+ 3.2	+ 4.3	Q4	+ 5.0
Greece	+ 4.0	Mar	+ 3.0	na	na	+ 4.3	Jan	+ 5.2	na		na
Iceland	+ 8.7	Mar	+ 3.9	na	na	+ 8.7	Mar	+ 6.0	+ 9.8	Feb	+ 8.2
Ireland	+ 4.7	Feb	+ 5.3	na	na	+ 2.3	Jan	+ 3.8	+ 8.1	Q4	+ 6.4
Luxembourg	+ 2.1	Mar	+ 2.9	na	na	– 2.0	Jan	+ 5.3	+ 3.4	Aug	+ 7.0
New Zealand	+ 1.7	Q4	+ 4.0	na	na	+ 1.8	Q4	+10.7	+ 2.2	Q4	+ 1.6
Norway	+ 1.0	Mar	+ 3.7	na	na	– 4.5	Mar	– 0.1	+ 4.5	Q4	+ 4.3
Portugal	+ 3.2	Feb	+ 4.8	na	na	– 4.9	Feb	+ 6.0	+ 2.4	Apr	na

Text refers only to the first 16 countries listed

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Portfolio poll

Apr 11th 2002
From The Economist print edition

Portfolio poll

1st quarter 2002

	Holdings by instrument, %			Equity holdings by area, %						
	Equities	Bonds	Cash	United States	Other Americas	Britain	Euro area	Other Europe	Japan	Other Asia
Robeco Group	53 ▼	47 ▲	0	54 ▼	2	10	15	5 ▲	10 ▲	4
Julius Baer PB	40 ▼	45	15† ▲	58 ▲	3	7 ▲	14 ▼	7 ▲	7 ▼	4 ▼
Commerz Int. CM	59 ▼	41 ▲	0	53 ▼	1	10	21 ▲	2 ▼	11 ▲	2 ▼
Credit Suisse	40	35 ▲	25‡ ▼	58 ▲	0	11 ▲	16 ▼	3 ▲	10 ▼	2 ▲
Lehman Brothers	70	30	0	37 ▼	0	7 ▼	31 ▲	6 ▲	10 ▲	9 ▲
Standard Life	55	45	0	57	0	11 ▼	16 ▼	4	8 ▲	4 ▲
Daiwa IR	63 ▲	32 ▼	5	55 ▲	2 ▲	10 ▼	20 ▼	3 ▲	8 ▼	2
Average	54	39	6	53	1	9	19 ▼	4	9	4
Neutral*				56	2	10 ▼	15	5	9 ▲	3

	Bond holdings by currency, %				
	Dollar	Yen	Sterling	Euro-zone	Others
Robeco Group	34 ▼	25 ▲	7 ▲	31 ▼	3 ▲
Julius Baer PB	88 ▲	0	0	4 ▼	8 ▲
Commerz Int. CM	31 ▲	35 ▲	8 ▲	18 ▼	8 ▼
Credit Suisse	80 ▼	0	0	20 ▲	0
Lehman Brothers	49 ▼	18 ▲	4	26 ▼	3
Standard Life	27 ▲	28 ▼	5	37 ▼	3
Daiwa IR	33 ▼	11	5	47 ▲	4 ▼
Average	49	17 ▲	4	26 ▼	4 ▼
Neutral*	24 ▼	28 ▲	5	37	6

▼▲ A change of 5% points or more on last quarter
▼▲ A change of less than 5% points on last quarter

* Morgan Stanley Capital International (developed) world equity index; Salomon Brothers world government-bond index

†Of which 6% invested in alternative investments

‡Of which 17% invested in alternative investments

This quarter, our panel of investors has found a few areas of agreement. Only one of them, Daiwa, has actually increased its equity allocation. The others have been boosting their bond holdings, switching to cash, or leaving their portfolios unchanged. Our moneymen disagree on the outlook for American shares: Julius Baer, Credit Suisse and Daiwa were net buyers of American equities, but three others chose to sell. Only Daiwa increased its tiny stake in Latin American equities; others still seem wary of the region in the wake of the Argentine crisis. The panel is showing increased interest in Japan. This quarter, all of our investors except Standard Life have either raised their holdings of yen-denominated debt or left it at previous levels.

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Money and interest rates

Apr 11th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Apr 10th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+22.7	+13.6	Feb	4.52	4.92	5.17	6.28	5.48	7.02
Britain	+ 7.1	+ 6.2	Feb	4.13	5.34	4.83	5.23	4.75	6.31
Canada	+14.2	+ 5.5	Feb	2.38	4.52	4.35	5.72	5.53	7.09
Denmark	+ 5.9	+ 6.5	Feb	3.70	4.95	4.44	5.35	4.98	7.02
Japan	+24.4	+ 3.8	Mar	0.03	0.03	0.03	1.38	1.29	1.52
Sweden	+ 8.8	+ 6.2	Dec	4.21	3.86	5.10	5.55	4.74	5.76
Switzerland	+ 7.5	+ 4.6	Feb	1.60	3.24	2.44	3.44	3.21	4.29
United States	+ 7.6	+10.9	Feb	1.84	4.66	3.44	5.23	5.07	6.92
Euro area†	+ 6.1	+ 7.4	Feb	3.41	4.56	4.14	5.12	4.70	5.76

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.71%, Japan No.237 1.38%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.003%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 11th 2002
From The Economist print edition

1995=100

	Apr 2nd	Apr 9th*	% change on one month	% change on one year
Dollar index				
All items	69.9	69.2	– 1.2	– 0.3
Food	70.7	69.3	– 1.4	+ 3.4
Industrials				
All	68.8	69.0	– 0.9	– 4.9
Nfa†	69.2	69.5	+ 0.4	– 0.4
Metals	68.6	68.6	– 1.9	– 8.4
Sterling index				
All items	76.5	76.2	– 2.6	+ 0.2
Euro index				
All items	104.3	103.8	– 1.5	+ 1.3
Yen index				
All items	99.1	96.5	+ 0.6	+ 5.0
Gold				
$ per oz	305.30	298.95	+ 2.0	+16.3
West Texas Intermediate				
$ per barrel	27.41	25.57	+ 5.0	– 9.5

* Provisional. † Non-food agriculturals.

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Stockmarkets

Apr 11th 2002
From The Economist print edition

Market indices

	Apr 10th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,327.2	3,440.0	3,315.1	– 0.1	– 3.3	– 1.0	+ 2.7
Austria (ATX)	1,306.6	1,306.6	1,114.4	+ 0.3	–24.8	+14.6	+13.1
Belgium (Bel 20)	2,763.5	2,811.1	2,622.4	– 0.7	–24.9	– 0.7	– 1.9
Britain (FTSE 100)	5,229.1	5,323.8	5,024.1	– 0.4	–24.5	+ 0.2	– 1.1
Canada (Toronto Composite)	7,800.1	7,958.1	7,418.1	– 0.5	–31.5	+ 1.5	+ 1.7
Denmark (KBX)	221.6	233.4	216.8	– 4.1	–26.6	– 1.4	– 2.7
France (SBF 250)	2,990.7	3,081.9	2,782.5	– 1.9	–31.9	+ 0.3	– 1.0
(CAC 40)	4,521.8	4,688.0	4,239.0	– 2.4	–34.7	– 2.2	– 3.5
Germany (Xetra DAX)	5,265.4	5,462.6	4,745.6	– 0.3	–34.7	+ 2.0	+ 0.7
Italy (BCI)	1,473.5	1,509.8	1,344.9	– 2.0	–32.5	+ 2.8	+ 1.5
Japan (Nikkei 225)	11,218.6	11,919.3	9,420.9	– 1.6	–71.2	+ 6.4	+ 6.6
(Topix)	1,078.1	1,125.4	922.5	– 0.6	–62.6	+ 4.5	+ 4.7
Netherlands (AEX)	515.7	531.2	478.3	– 2.4	–26.5	+ 1.8	+ 0.5
Spain (Madrid SE)	817.7	847.4	773.2	– 1.3	–28.7	– 0.8	– 2.1
Sweden (Affarsvarlden Gen)	219.4	236.8	209.9	– 1.0	–45.2	– 5.2	– 3.9
Switzerland (Swiss Market)	6,680.7	6,694.1	6,105.2	– 0.2	–20.6	+ 4.1	+ 3.5
United States (DJIA)	10,381.7	10,635.3	9,618.2	+ 1.8	–11.4	+ 3.6	+ 3.6
(S&P 500)	1,130.3	1,172.5	1,080.2	+ 0.4	–26.0	– 1.6	– 1.6
(Nasdaq Comp)	1,767.1	2,059.4	1,716.2	– 1.0	–65.0	– 9.4	– 9.4
Europe (FTSE Eurotop 300)*	1,253.6	1,279.7	1,185.5	– 1.3	–26.5	– 0.6	– 1.9
Euro area (FTSE Ebloc 100)*	1,086.1	1,125.1	1,013.0	– 2.2	–30.0	– 2.3	– 3.6
World (MSCI)†	992.0	1,024.4	937.0	– 0.3	–31.5	na	– 1.1
World bond market (Salomon)‡	438.0	443.1	430.3	+ 0.5	– 4.8	na	– 0.4

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Apr 11th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† Apr 10th	year ago	Currency units per $ Apr 10th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	+ 1.3	Feb	− 9.2	Q4	− 3.5	− 3.7	75.8	69.9	1.88	2.02	2.70	1.66	1.44	0.1
Austria	− 4.3	Dec	− 3.6	Jan	− 2.2	− 2.0	100.0	100.3	1.14§	1.12	1.63	–	0.87	nil
Belgium	+ 11.2	Dec	+ 13.0	Dec	+ 4.8	+ 4.8	98.7	98.9	1.14§	1.12	1.63	–	0.87	nil
Britain	− 47.2	Feb	− 25.1	Q4	− 1.9	− 1.9	107.3	106.3	0.70	0.70	–	0.61	0.53	1.1
Canada	+ 39.0	Jan	+ 18.9	Q4	+ 1.9	+ 2.1	75.8	77.3	1.59	1.56	2.29	1.40	1.22	2.8
Denmark	+ 7.1	Jan	+ 4.2	Jan	+ 2.5	+ 2.3	101.7	101.6	8.46	8.39	12.1	7.44	6.47	2.0
France	+ 4.2	Jan	+ 25.6	Jan	+ 1.8	+ 1.7	101.3	101.5	1.14§	1.12	1.63	–	0.87	-1.5
Germany	+ 90.3	Feb	+ 15.8	Feb	+ 0.3	+ 0.4	98.3	98.5	1.14§	1.12	1.63	–	0.87	-2.5
Italy	+ 8.4	Jan	+ 3.2	Dec	nil	− 0.1	72.3	72.5	1.14§	1.12	1.63	–	0.87	-1.4
Japan	+ 70.1	Feb	+ 90.0	Feb	+ 2.5	+ 2.5	129.5	135.8	131	124	188	115	–	-6.4
Netherlands	+ 22.1	Jan	+ 11.8	Q4	+ 3.7	+ 4.0	97.6	97.8	1.14§	1.12	1.63	–	0.87	1.1
Spain	− 38.5	Dec	− 15.2	Dec	− 2.1	− 1.8	74.0	74.1	1.14§	1.12	1.63	–	0.87	nil
Sweden	+ 13.5	Feb	+ 7.4	Jan	+ 2.3	+ 2.6	76.5	77.3	10.3	10.2	14.9	9.10	7.91	3.8
Switzerland	+ 1.6	Feb	+ 24.6	Q4	+ 9.4	+ 9.5	112.3	108.1	1.67	1.71	2.40	1.47	1.28	na
United States	−421.2	Jan	−417.4	Q4	− 4.2	− 4.5	122.6	119.8	–	–	1.44	0.88	0.76	0.6
Euro area	+ 46.6	Jan	− 6.5	Jan	+ 0.3	+ 0.4	78.1	78.6	1.14	1.12	1.63	–	0.87	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.4	Jan	+ 8.2	Jan	na	na	77.8	77.8	1.14§	1.12	1.63	–	0.87	3.7
Greece	− 21.3	Dec**	− 7.2	Dec	na	na	57.3	57.4	1.14§	1.12	1.63	–	0.87	0.2
Iceland	+ 9.3	Feb	− 0.4	Q4	na	na	na	na	99.3	93.2	143	87.3	76.0	-0.2
Ireland	+ 31.9	Jan	− 1.2	Q3	na	na	86.8	87.0	1.14§	1.12	1.63	–	0.87	3.2
Luxembourg	− 2.8	Dec	+ 0.4	Q3	na	na	98.7	98.9	1.14§	1.12	1.63	–	0.87	5.3
New Zealand	+ 0.2	Feb	− 1.6	Q4	na	na	84.8	77.8	2.28	2.48	3.28	2.01	1.74	1.3
Norway	+ 24.1	Feb	+ 22.8	Jan	na	na	99.7	94.3	8.69	9.14	12.5	7.64	6.64	14.3
Portugal	− 14.0	Dec	− 10.2	Jan	na	na	89.0	89.2	1.14§	1.12	1.63	–	0.87	-1.7

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. §Now using euro only. **Corrected.

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Information-technology spending

Apr 11th 2002
From The Economist print edition

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Overview

Apr 11th 2002
From The Economist print edition

In the year to February, industrial production rose by 5.5% in **South Africa** and by 2.9% in Malaysia, but fell by 4.5% in **Turkey**.

Inflation is still troubling **Latin America**. In the year to March, consumer prices rose by 7.9% in **Argentina**, by 9.7% in **Brazil** and by 4.7% in **Mexico**.

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Ageing population

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From The Economist print edition

Roughly 630m people worldwide are aged 60 years or older, according to a new study by the United Nations. By 2050, that number could rise to 2 billion. Old people make up a larger proportion of the population in rich countries than in developing ones. Many developed countries make little use of their elderly workers, unlike poor places, such as Kenya, where almost 80% of men over 60 are still working. This week's World Assembly on Ageing in Madrid called for greater action to improve employment opportunities for the elderly, along with better access to health care and poverty reduction.

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Economy

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	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.6	Q4	+ 3.5	Feb	nil	Feb	+26.5	Feb	+21.2	2001§	220.8	Jan
Hong Kong	– 1.6	Q4	– 9.3	Q4	– 2.3	Feb	– 9.9	Feb	+12.0	Q4	110.2	Mar
India	+ 6.3	Q4	+ 3.2	Jan	+ 5.2	Feb	– 6.0	Feb	– 0.1	Q4	47.7	Feb
Indonesia	+ 4.1	Q4	– 2.2	Q3	+14.1	Mar	+25.9	Feb	+ 4.8	Q3	27.1	Feb
Malaysia	– 0.5	Q4	+ 2.9	Feb	+ 1.2	Feb	+13.9	Feb	+ 7.4	Q3	30.3	Feb
Philippines	+ 3.8	Q4	– 0.5	Jan‡	+ 3.6	Mar	+ 2.8	Jan	+ 4.5	Dec	13.9	Feb
Singapore	– 2.6	Q1	–11.3	Feb	– 0.6	Feb	+ 5.6	Feb	+17.9	Q4	72.1	Feb
South Korea	+ 3.7	Q4	– 2.6	Feb	+ 2.3	Mar	+ 6.6	Mar	+ 8.2	Feb	105.0	Feb
Taiwan	– 2.7	Q4	–11.5	Feb	nil	Mar	+17.5	Mar	+19.0	Q4	125.0	Feb
Thailand	+ 2.1	Q4	+ 2.3	Feb	+ 0.6	Mar	+ 2.9	Feb	+ 6.4	Feb	33.2	Feb
Argentina	–10.7	Q4	–16.5	Feb	+ 7.9	Mar	+ 8.3	Feb	– 4.4	Q4	13.9	Feb
Brazil	– 0.7	Q4	+ 0.3	Feb	+ 9.7	Mar	+ 4.4	Mar	–21.3	Feb	35.9	Feb
Chile	+ 1.7	Q4	+ 0.9	Feb	+ 2.6	Mar	+ 1.5	Feb	– 0.9	Q4	14.0	Feb
Colombia	+ 1.7	Q4	– 1.4	Dec	+ 5.9	Mar	+ 0.2	Jan	– 1.2	Q3	10.4	Feb
Mexico	– 1.6	Q4	– 3.3	Jan	+ 4.7	Mar	– 9.7	Feb	–17.1	Q4	47.1	Feb
Peru	+ 3.3	Feb	+ 1.5	Jan	– 1.1	Mar	– 0.1	Jan	– 1.1	Q4	8.7	Feb
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+17.6	Mar	+ 9.8	Q4	+ 4.4	Q4	7.6	Jan
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.5	Dec	– 8.6	Nov	– 0.1	Q4	12.9	Dec
Israel	– 3.4	Q4	– 9.6	Jan	+ 4.0	Feb	– 6.7	Feb	– 1.7	Q4	24.2	Mar
South Africa	+ 1.8	Q4	+ 5.5	Feb	+ 6.1	Feb	+ 3.7	Feb	– 0.2	Q4	6.0	Jan
Turkey	–10.4	Q4	– 4.5	Feb	+65.1	Mar	– 6.7	Jan	+ 3.3	Dec	20.5	Feb
Czech Republic	+ 3.2	Q4	+ 5.8	Feb	+ 3.7	Mar	– 2.9	Feb	– 2.7	Q4	14.7	Feb
Hungary	+ 3.3	Q4	nil	Feb	+ 5.9	Mar	– 2.2	Feb	– 1.4	Feb	9.7	Feb
Poland	+ 0.3	Q4	+ 0.4	Feb	+ 3.5	Feb	–11.3	Feb	– 7.3	Feb	25.5	Feb
Russia	+ 4.9	Q3	+ 2.0	Feb	+17.0	Mar	+47.8	Jan	+35.1	Q4	32.8	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	– 5.6	Nov	+ 2.5	Jan	– 0.9	Feb	+ 0.3	2001†	3.6	Jan
Saudi Arabia	+ 1.7	2001§	na		nil	Dec	+37.5	2001§	+ 8.3	2001	18.8	Feb

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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Financial markets

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From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 10th		Dec 31st 2001	
	Apr 10th	year ago	Apr 10th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	na	1,750.8	+5.3	+ 2.2	+ 2.2
Hong Kong	7.80	7.80	11.2	2.05	10,643.1	-1.8	- 6.6	- 6.6
India	48.9	46.5	70.2	5.97	3,479.6	+0.5	+ 6.7	+ 5.3
Indonesia	9,580	10,653	13,756	17.25	533.8	+9.4	+ 36.2	+ 47.8
Malaysia	3.80	3.80	5.46	3.25	774.6	+2.5	+ 11.3	+ 11.3
Philippines	50.9	49.9	73.1	6.18	1,410.0	-0.7	+ 20.7	+ 22.4
Singapore	1.84	1.81	2.64	0.91	1,715.4	-3.8	+ 5.7	+ 6.3
South Korea	1,324	1,333	1,901	4.82	856.0	-6.8	+ 23.4	+ 22.4
Taiwan	34.9	32.9	50.2	2.55	6,059.2	-3.7	+ 9.2	+ 9.3
Thailand	43.5	45.6	62.4	2.25	372.7	+2.4	+ 22.6	+ 24.8
Argentina	2.76**	1.00	3.96	na	391.1	-9.4	+ 32.4	- 52.0
Brazil	2.27	2.14	3.26	18.52	13,438.0	+2.7	- 1.0	+ 0.7
Chile	641	595	920	4.56*	5,282.9	+0.2	- 2.1	+ 1.0
Colombia	2,256	2,311	3,239	10.34	1,130.2	+2.4	+ 5.5	+ 6.6
Mexico	9.04	9.33	13.0	5.84	7,517.7	+4.5	+ 18.0	+ 19.6
Peru	3.44	3.54	4.94	2.73	1,294.6	-0.8	+ 10.1	+ 10.2
Venezuela	891	709	1,279	24.00	6,907.7††	+0.1	+ 5.1	- 10.6
Egypt	4.63	3.89	6.65	7.20	5,286.2	+1.5	+ 0.3	- 1.0
Israel	4.75	4.16	6.82	2.73	377.7	+0.6	- 15.5	- 21.5
South Africa	11.2	8.04	16.1	11.05	11,240.6	+1.1	+ 7.7	+ 15.3
Turkey	1,301,000	1,295,000	1,868,106	46.00	12,030.9	+6.7	- 12.7	- 2.4
Czech Republic	34.5	39.1	49.6	4.25	448.5	+4.9	+ 13.7	+ 17.1
Hungary	276	300	396	8.46	8,635.6	+6.1	+ 21.1	+ 20.6
Poland	4.09	4.04	5.87	10.28	15,228.9	+3.1	+ 9.4	+ 5.8
Russia	31.2	28.9	44.8	23.00	367.6†	+8.2	+ 44.7	+ 41.4
EMF (MSCI)‡	1.00	1.00	1.44	na	350.4	-0.9	na	+ 10.4
EMBI+§	1.00	1.00	1.44	na	216.4	+0.8	na	+ 8.0

*New series. †In $ terms. ††Apr 8th. ‡Emerging Mkts Free. §J.P. Morgan Chase's Emerging Mkts Bond Index Plus. **Fixed official rate 1.40.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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